

# THE British War Economy *1939-1943*

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*If England was what England seems,  
And not the England of our dreams,  
But only putty, brass and paint,  
How quick we'd chuck her—but she ain't.*

—RUDYARD KIPLING



## PREFACE

Modern warfare is fought on economic battlegrounds.

This truism may be iterated to focus the reader's attention upon the fact that, while many words have been devoted to a consideration of the military aspects of mobilization and war, in far too few instances has the same attention been devoted to the economic processes and implications of modern warfare. This is all the more regrettable as the prosecution of active warfare today emphasizes the recruitment of economic resources for use by the military forces and by civilian populations to the exclusion of other, less important activities.

The object of the present volume is partially to meet this deficiency in understanding on the part of the American reader by bringing to his attention the main points involved in marshalling British men, machines, materials and money for an all-out war effort. It is hoped that a perusal of its pages will provide American students of economics and war economics, Government officials interested in British facts and figures, and lay readers with a comprehensive view of economic mobilization. Through this study they should acquire pertinent information relative to the interrelated factors of human, physical and financial resources which must be built into a coordinated national policy aimed at conquering totalitarian aggression. The American war problems which have arisen and which will appear in future months should be clarified by consideration of similar difficulties faced and solved by Great Britain. For although Britain has preceded America on the road of economic mobilization she has not so far outdistanced the latter nation as to render inapplicable to the American situation vital changes and modifications in British economic structure.

The period covered by this book, representing more than three years of war from September 1939 to January 1943, witnessed one

of the most interesting epochs in British history for in it her war machine has been developed to its present state of efficiency with the diversion of every man, every machine and every pound to war purposes. The various chapters covered by this book, ranging from economic mobilization of domestic and foreign assets, through production, labor, finance, consumption and trade, and ending with some reference to the post-war aspects of this conflict, should provide the reader with insight into the problems encountered by Britain in three years of active warfare and by America in the months following Pearl Harbor.

They indicate also Britain's war and post-war economies, her approach to the settlement of American debts by the utilization of these resources, reparation payments and other potential assets, and her desire to reach an agreement with the United States and the other United Nations which will incorporate in it an equitable solution of pressing economic, social and financial issues appearing as an inevitable part of modern warfare.

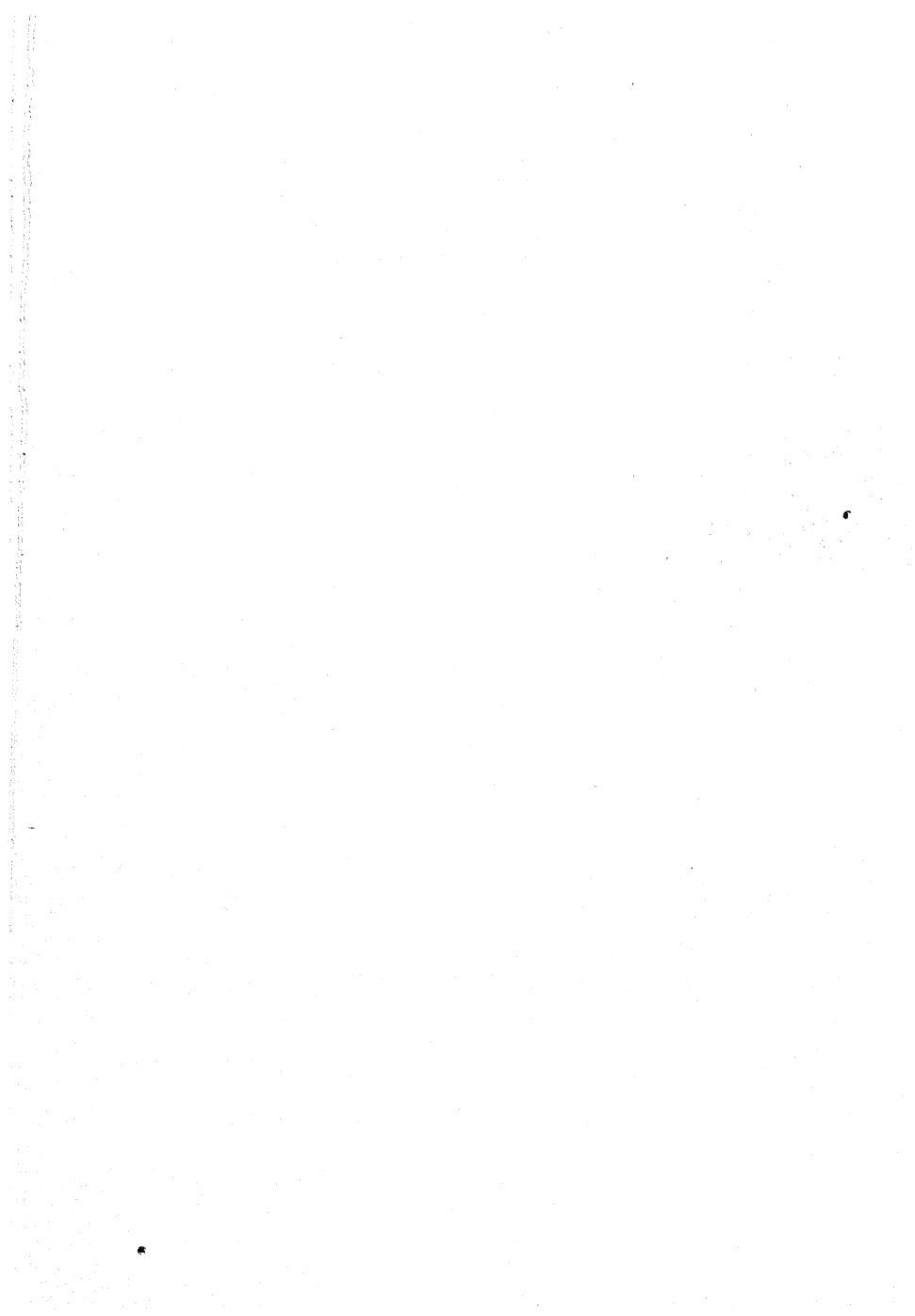
An important concomitant of the transfer of British resources to the war effort has been the broadening of the average citizen's understanding of the economics of war. Britons, as the war has progressed, have devoted steadily increasing attention to the special effect of war economics upon men in Whitehall and Whitechapel, in homes, mines, factories and bomb shelters. As rearmament and maintenance of large military forces cut deeply into national resources and as various measures of control were introduced in Britain civilians understood the necessity for the latter's enactment and expressed willingness to unite in the sacrifices they entailed. In the last analysis it is to Britain that the American student of war economics must turn to learn the rules and procedures of building and operating a war economy. Only through this knowledge can the American effort to mobilize resources and to perfect every segment of the war effort become more purposefully considered by civilians in their individual and collective capacities in these United States.

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## INTRODUCTION

Dr. Murphy has written the first comprehensive account of the whole armory of economic measures taken by Great Britain to meet the mortal challenges of total war. Her intelligent study is as thorough and profound as it is extensive. The assiduity which went into the research and evaluation, here presented, is extraordinary, and the scholarship fulfills all the requirements of so large and important a theme.

Her narrative and evaluation are incredible, and they are true. To all those who are concerned with the war effort of the United States, as leaders, makers of policy, or humble administrators and rank-and-file, it will prove most invaluable as that rarest of things—the blueprint for action made from a complete picture of action already taken, the well composed ‘I-told-you-so’ while that phrase is a rich lesson and before it has become a disappointed rebuke. It is possible for wise men to spare much sacrifice and tribulation to their country if they will learn by the mistakes implicit in the final account of success; and not obstinately repeat them in the belief that somehow the nature of things will not operate so far as they are concerned, and will not duly punish them and their common people for disdaining the prescriptions upon which their happiness depends.

This work proves several things about organization for modern war in a democracy. First, leaders need have no fear that the people will not follow and make the necessary sacrifices, if the people are given a decided lead, told clearly what is the purpose, and why this particular means must be adopted. The world today has a peculiarly spiritual readiness to pay the price of victory in this War of Democratic Deliverance. Indeed, again and again, as the record will prove, the people have been readier than

the statesmen, to the latter's unjustifiable surprise. They have taken it for granted that men and women will go to the battlefield; they have worried whether people would eat less and pay more taxes behind it. They have almost adopted Machiavelli's dictum that people would be readier to forgive the murder of their relatives than the confiscation of their property. But the people—the economic producers—have taught them better, as this study clearly shows. It is as though all had unspokenly agreed that no deliverance was worth having unless it were bought with the experience of privation. This is the clear lesson from Great Britain; and the people thrive on it. As Dr. Murphy shows, the social services get carried on with even greater liberality than in peace-time; and all are inspired to look forward to an improved society in the aftermath of the war.

Secondly, the developments discussed were an issue in terms of Time. The Nazi method of fighting a war, carefully cogitated by unsleeping malice while others lay wrapped in unheeding rest, is to have all its potential resources actual and mobilized, with enormous reserves, while the opponents' reserves were still unmined and unmarshalled. And then, like the boxer who knows his strength, to take the fight to his opponent, thus making him incapable of pulling himself together under the rain of blows, or getting so far ahead on points that the opponent throws in the towel out of sheer despair. It worked with France. It nearly worked with England. But now another theme enters. Time, which, as this book shows, was not allowed to defeat the British effort, though under a rain of bombs, is still of the essence of victory. For Hitler hopes to consolidate Europe, and make the whole of it one vast arsenal of dictatorship. He hopes that this will mean the submission of the ardent spirits among the workers, since, after all, they must feed themselves, and can hardly adopt the permanent policy of refusing to work when that is the only way to feed the children crying with hunger or cold and ragged because money is not coming into the house. The number of men and women already acquiescing in the Nazi tyranny, using their skilled minds and hands to make its munitions, is already too large to contemplate with freedom from



anxiety. Time, then, is of the essence of our effort. It is the United Nations, who, at this stage of the war, must be in a hurry. In Great Britain the average working hours are 56 hours a week. . . . Voluntarism was kept until it did not fulfill the program in terms of Time. To save our hours is to subject others for many months, perhaps years, to the probability of being shot by Himmler and the Nazi Armies of Occupation. The line of responsibility is clear and direct, when the facts are portrayed; and if it is clearly flood-lit the conditions for the acceptance of the call to Hurry! can be successfully established.

Thirdly, this work shows the width of planning necessary to success in putting all the potential force of a nation into the fight. Governments cannot win modern wars without acting comprehensively and pervasively. Consider what Britain has had to do to survive, as this analysis shows. She has had to convert herself from a meat-eating land, whose chief crop was grass for pasture, into a cereal eater, because cereals will give more food value per acre than the cattle fed on it, and because cereals are very bulky, and would otherwise have to be carried by shipping which is needed for other things, and much of which has been sunk. She grows two-thirds of her food whereas before the war she grew only one-third. At the same time she has had to make planes, tanks, guns, ships, munitions, anti-aircraft defences, and the rest, on a terrific scale (her output per man is still greater by one-third to one-half than that of the other great industrial nations); put men into the Armed Forces and send them all over the world; keep the Island prepared to meet invasion; defeat attempts at destruction from the air; work in a perpetual blackout; ration down to the subsistence level on grounds of short supplies, fairness to those with small incomes, and to keep a margin for small savings; distribute fire-fighting duties (real, not practice exercises); subsidize foods so that the poor may have the necessary minimum, at least, and all the children the amounts required for growth and development; and all this largely out of its own resources. The Government takes two-thirds of the income; and the Government demands the direct war services of two-thirds of the population between the ages of 14 and 65, and

the rest do the work which the Government thinks necessary as a supplement to their well-being and efficiency. . . . That is by no means all. The full record detail by detail, and effect upon cause, is told by Dr. Murphy. No society which does this can be spiritually worse off; none can be, soon after the war, any but better off materially. Dr. Murphy also lifts the curtain on the future in Great Britain.

Finally, we learn what a tremendous obligation falls upon the legislative and executive leadership of the country. There were many criticisms of the British Civil Service, for example, during the days of the so-called "phoney war." But the truth is that, as Dr. Murphy shows, the Civil Service must have done a great deal of comprehensive and useful planning before the war. If those plans were not applied according to the principles we have stated above, namely, that the leaders could rely upon the people's readiness to make sacrifices, that speed was essential, and that planning must be total—it was the fault of the leaders. The present work clearly shows that a masterly job has been done by the Ministry of Labor and National Service in the mobilization of manpower, by the Ministry of Food in the provision and rationing of supplies, and by the Treasury in its wage and price policy. These are only three departments of the war effort on the civilian side, if today there is such a thing as the civilian side of the war. When executive leadership and Parliament were sure of their course, courageous in their decisions, trustful of the people and determined that Time should not elude them, their every step was a step to victory.

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## CHAPTER I

### MOBILIZATION OF RESOURCES

Democracies are not geared perpetually for war as are totalitarian nations. When they are faced with the possibility of a conflict they have to convert their economic systems, organized on a peacetime basis, to produce goods for consumption, into patterns of production of armaments. Later their economies must be distorted still more by conversion into a structure which satisfies the rigorous demands and curtailments of active warfare.

In this process, which requires not only time but recognized ability on the part of individuals placed in charge of key Government Departments, great economic discipline is exerted in every corner and over every person in the nation. No better example of the width and severity of the economic discipline occasioned by war and applied to a democracy can be found than Great Britain. It is Great Britain, a liberal economic democracy as is the United States, which for generations had espoused the sacredness of the individual and the preservation of his freedom, which has had to mobilize labor and capital, to marshal foreign trade and exchange, to initiate many, minute measures of economic control for the supreme objective of winning a war fought against totalitarian countries.

Immediately upon the outbreak of hostilities with these countries on September 3, 1939, Britain created an Economic General Staff with the task of mobilizing her potential economic strength through a coordinated program aimed at achieving the greatest efficiency from every aspect of the economic system. This approach contrasted sharply with that of the World War when economic planning did not appear until 1917, and with that of the United States in which the Office of Economic Stabilization "to

formulate and develop a comprehensive national economic policy relating to the control of civilian purchasing power, prices, rents, wages, salaries, profits, rationing, subsidies, and all related matters—all for the purpose of preventing avoidable increases in the cost of living, minimizing the unnecessary migration of labor from one business, industry, or region to another, and facilitating the prosecution of the war” did not appear until October 1942, ten months after Pearl Harbor and almost two and one-half years after the inception of the American defense program. An overall Office of War Mobilization, guided by an economic general staff, has been proposed in the United States to be composed of production and supply, manpower supply, technological mobilization, and economic stabilization, a body which would be patterned after the British economic plan.

In this war speed of change and early formulation of policy have been revealed as necessary accompaniments to military activity. To tarry in the introduction of economic planning would have been disastrous for any country engaged in modern warfare but, especially, to one protecting itself against the militaristic tendencies of a nation devoted for years to a war effort. The first step in the British program of economic planning involved the conception and application of control over all factors composing the pre-war economic system, and utilized World War organizational and legislative experience.<sup>1</sup>

#### ECONOMIC EFFORT OF REARMAMENT

Under modern conditions, a war economy is not superimposed upon a peace economy, as was true in the World War, but instead it has its roots in a preparedness economy. Preparedness, at the same time, is no longer confined to the military forces but comprehends the economic demands of both military and civilian populations.<sup>2</sup>

The British economic policy of rearmament mobilized the supplies of material, wealth and labor for the purpose of producing goods for military and civilian use, and for exportation.<sup>3</sup> It necessitated careful planning on the part of Government Departments for it was not sufficient to prevent the exportation of capital, to increase taxation, to discourage private investment, and to solicit

funds for war purposes. In addition, exports had to be maintained and, if possible, increased in volume. All non-essential production, especially when it competed in factories with the manufacture of war products, had to be curtailed. Many large and small sacrifices were demanded of citizens as their work, their savings, their purchases, and their pleasures became subject to Government dictation.<sup>4</sup>

One of the problems introduced was that of estimating industrial and agricultural capacity on a war basis. This capacity exceeded actual output achieved in the years directly preceding the war because of the introduction of idle men and machines in production and the elimination of inefficient methods. Mass production, however, on the scale envisaged by modern warfare, could not be achieved by wishful thinking. It had to be evolved, instead, gradually over a period of many months, during which factories once devoted to production of consumers' goods were converted to war manufacture, labor was retrained and transferred to the sources of demand, capital was directed into new construction, temporary bottlenecks were overcome, and the ultimate goal of maximum production was approached.

In this process of change-over from peace to war production, economic controls were introduced in various sections of the British economy; many that have followed Pearl Harbor have been secured in the United States and modeled after the British measures. These controls were aimed at securing the most efficient use of capital, labor and plant facilities. They were introduced to preserve the existing status of British life to the greatest degree possible, and to guarantee that undue hardship did not accrue to any section of the population. War has proved to be a great simplifier of human activity, and this fact has been revealed again and again as all productive resources of the nation have become more concentrated upon the promotion of the war program and less upon the satisfaction of civilian requirements.<sup>5</sup>

In the first ten months of war economic planning increased in scope and intensity throughout all sections of British life. The Government was successful in raising the gross national income to the maximum, transferring to the war economy all available productive capacity, and maintaining civilian requirements at a

minimum level. The major objective of war economics, that is the increase of output of war industries, was held a primary aim with secondary importance accorded to finance.

In the race to produce the most war equipment in the shortest amount of time Britain has forged ahead, her war aims carried forward by many citizens in large and small capacities, working in mills and mines, in shipyards and docks, in the cities and on the land, all striving to achieve maximum output for their country. Practically every industry has been converted to the production of war materials or of goods required by the Government. The national income, which in August 1939 was devoted to war production only to the extent of 10-12%, has been diverted in the amount of 60% to this end.<sup>6</sup> Economic control has continued to enlarge in scope as the months of war have elapsed, and this control has been imposed by authoritative Governmental bodies which have been endowed with the power to interfere in every activity in the nation deemed essential to the war effort. It is recognized today that many measures of control will continue into the post-war period as they cannot be relaxed immediately. With their sudden abandonment, chaos would occur.

#### INITIATION OF INDUSTRIAL CONTROL

Britain fostered the philosophy of "business as usual" as long as possible after the outbreak of war in the hope that it would prove adequate to produce vital war materials within a reasonable period of time. Under voluntary cooperation the wholehearted efforts of industrialists, capitalists, importers, exporters, workers, investors and bankers did not produce results. Bottlenecks in production, to consider only one area of activity, developed on every hand. Workers moved from locality to locality seeking high wages. Investment funds flowed into luxury trades and not into defense industries. Standardization and simplification of design in munitions production had not been attempted. Far too much industrial capacity remained unused. Far too much attention was devoted to the discussion of the necessity for every industrialist and every worker to make temporary sacrifices rather than to what the actual relinquishments of property and privilege should include.<sup>7</sup>



The desperate need for a plan to coordinate and control all segments of the productive process was evident to all intelligent observers. Yet drastic regimentation had been avoided by industrialists who were known throughout the world for their hatred of Government intervention in business. Some business men refused to admit, even after weeks of wasted effort, the need for unified planning as a substitute for the individual approach to problems of production. They would not accept the premise that individual business men and individual business companies, operating as separate units and motivated by personal aims, were too uncoordinated and wasteful in their efforts to realize the country's resources. The conversion of these resources, from a state of latent potentiality to that of actuality, under pressure of time and in the midst of war, was a tremendous task. It was so large and so complicated that a number of industrialists frankly admitted that they could not make the necessary effort to achieve its fulfillment. Cataclysmic change was in order, and this change, first, had to arise in the thinking of British business men, and later filter down from board meetings to managements and to workers, a process that was hastened and directed by Government action.

One of the most difficult concessions for business men to make was that, during the war, the profit motive no longer could be permitted to determine the course of production. They had to accept the fact that emergency legal measures, enacted by Parliament and placed in operation by various Government Departments, had to be relied upon to motivate productive forces and to guide them into the requisite channels. A few of these measures had been drawn up in the months preceding hostilities so their formulation did not retard the activities they were designed to promote. Others were prepared hastily, after consultation between Government leaders, economists, and business and labor leaders. Through their imposition freedom of business was ended in Britain, at least for the duration of the war, perhaps for some months after the conclusion of hostilities, perhaps forever. The extent of the life of these measures must be revealed by the turn of future events.

This change-over from a peacetime economy, noted for its freedom of activity, to one of wartime control was accomplished by

the British Government to tighten and toughen the economic aspects of the war economy. Because Britain was a democratic country she suffered an initial handicap, in her war with totalitarian nations, because a certain period of time had to elapse before her economic planning began to function, and in this period her enemies, who had created an Economic General Staff during peace with the stated objective of mobilizing economic resources for war, operated with great wartime efficiency. Even after British economic control and planning began to function certain modifications had to be made in the original program as deficiencies were revealed and additional areas were indicated as requiring drastic regimentation. In the program to control all economic factors many mistakes were made by the British Government but they were mistakes which could only be revealed when control was exercised over a large number of minute, complex, interdependent factors, some of which were of a personal, and others of an intangible nature.

#### IMPORTANCE OF BRITAIN'S ECONOMIC STRENGTH

Since modern warfare is of long duration and of enormous expense to combatants the economic strength of Britain became of paramount importance as inconceivably large quantities of materials, guns, mechanized units, and airplanes had to be thrown into the struggle for survival and victory.<sup>8</sup>

A pre-war census of factories and machinery available for production had been undertaken before the declaration of war by the Government and this information was kept up to date as new facilities were added. Estimates were made of the quantities of material which could be produced at home and used in promoting the war effort, and those which could be diverted to civilian consumption and to the export trades. Opinions were secured from experts as to the maximum productive capacity which could be attained through employment of reserve ranks of laborers, transference and re-education of workers, utilization of retired and women workers, increase in the hours of work, and decrease in the movement of labor from area to area and from occupation to occupation.

Although the economic power of Britain provided the founda-

tion for the military forces it was soon discovered that it could not be mobilized at a moment's notice. It required a thorough survey of human and industrial resources, carried out under Government auspices, thoughtful consideration of the waste, inconvenience and dislocation of industrial effort because of war mobilization, and proper guarantee to civilians that, in spite of war production, they would be provided with the prime necessities of existence. It could not be built up except through a complete and painstaking study of supplies, by means of accumulation of vital materials, construction of plants, purchase of equipment, dilution of workers in skilled occupations, and the enlistment of managerial minds for the direction of huge industrial enterprises in which speed and efficiency of operation became the keynotes. Then, too, there had to be a directing, vitalizing, coordinating force provided by the Government in order that overlapping of effort and misdirection of energies and waste were reduced to a minimum, if not entirely eliminated. The necessity of realizing this directive force has been exhibited by the relative ineffectiveness of American Governmental Departments in eliminating overlapping of authority and effort and in securing coordination of work through the elimination of personal disputes within and between key Departments.

In determining the availability of human and physical resources plant owners, trade unions and employment agencies were consulted by the Government. Labor resources, which could be located after military recruitment began to take effect, were not large. A constant effort had to be made, therefore, to produce the maximum amount of goods required for the military forces and for home consumption, and to import the smallest amount of goods, in order to conserve foreign exchange and to provide for the purchase of strategic materials in the United States. At the same time the export trades had to be promoted by subsidy to increase foreign exchange and to maintain export markets for the post-war period.

Six months after the war started the *Economist*, leading British financial weekly, urged the discovery of "some means, by changes of machinery or of personnel, for providing the country with a properly integrated economic policy" which, it viewed, as an

essential element for victory. The conviction was expressed on all sides that the most efficient planning would be one in which few Governmental organizations were set up to interfere with the customary routine of industry, but that these should possess the widest authority. The question raised was not one of securing money to finance the war but rather of discovering a plan by which British productive resources and accumulated capital assets could be mobilized, rapidly and efficiently, and applied to the war effort.

The productive capacity of Britain rested upon the volume of available manpower, the hours of work that could be accomplished, the skill and output of workers, the managerial capacity of employers, the value of natural resources, and the volume of accumulated capital equipment. It was early demonstrated that if the required output could not be secured by using these reserves the consumption of citizens would have to be lowered. In utilizing its reserves the Government made a momentous decision in every instance as to whether the sacrifice of avoiding their use during the war, or the loss of their future income, would cause greater hardship to the country. In each case in which capital assets were sacrificed at home or abroad attention was directed to this comparison, and an equitable decision was reached only after consideration of the many tangible and intangible factors that made up the entire picture. Such decisions were inherent in the experience of any country conducting a war.

It was not sufficient to curtail consumption of citizens or to regiment their private investments, although these measures admittedly freed manpower and capital for the production of essential materials. In the long run they had to be supported by positive measures aimed at the re-employment of every laborer dismissed from non-essential work. If this had not been accomplished the sacrifice of citizens would have been ineffectual. A campaign to maintain the standard of living, also, had to be initiated. It was realized that only a very rich country, much richer in resources than Britain, could withdraw a large proportion of its productive capacity from civilian commodities and devote it to non-productive military purposes without its standard of living suffering a decline. The guarantee that the standard of living should not

decrease dangerously, even if it were to be maintained at Government expense, and that the efficiency and productivity of the industrial system should be maintained in order that technical progress could be preserved for the future, proved to be an Herculean task.

The transition from peace to war production has raised many problems for the post-war period. Just as the British industrial system has been converted to war purposes, so also must this structure be returned to its peacetime purposes at the conclusion of hostilities. This problem has been attacked by Arthur Greenwood, as head of a Committee of Ministers on Reconstruction and other members of the Government as it is recognized as of tremendous complication and far-reaching implication.

#### ECONOMY GREATLY AFFECTED BY WAR

The repercussions of the rearmament program and of war upon British industry were great. New employment was created temporarily throughout the country but it was realized that the final effect of producing goods for non-productive purposes would not benefit the nation. A minimum expansion of specialized industrial plant and equipment was stressed by the Government as the demand for war materials would be of a transitory nature. All expansion which was made was necessitated by a fight for survival against an enemy that had increased its plant resources to the utmost.

Large portions of the nation's productive resources were allocated to the Government, and a program was conceived which was aimed at the following purposes: utilization of resources of unemployed men and women; increase in working hours and productive efficiency of workers; reduction in the amount of resources employed in maintaining and increasing fixed capital; application of external capital and incurrence of external debts in order to obtain excess imports. Full productive capacity was not reached for some months but as the direct result of the stimulation of industry by Government purchases incomes of wage-earners were increased and unemployment was reduced. Consumption, especially in industrial areas, increased but the goods available for purchase were reduced in volume in order that inflation could

be prevented and saving of incomes promoted. After citizens had purchased the essentials of life they were urged to save their unspent incomes which, after reduction by taxation, were expected to flow into the Treasury through public purchase of war loans and bonds. But essentials of life did not include petrol, except for business purposes, or many labor-saving devices for the home or office. They did not include silk hosiery, luxury types of clothing, furs, cosmetics or jewelry. Citizens accepted restrictions in their usual modes of consumption without much protest, a similar attitude to their acceptance of all controls imposed upon their activities in the interests of victory.

The mobilization of Britain's economic strength was found, after bitter experience, to proceed much more slowly than that of her military forces. It was much easier for the Government to call up men and to organize units on the land and sea and in the air than it was to conscript, organize and direct the British economic effort. It was not sufficient for it to spend more and more money to secure increased production but, basically, the entire economic system had to be reorganized, regearred and disciplined to the point of greatest war efficiency.

The first six weeks following the declaration of war meant great dislocation of the British economic system. Unemployment increased. Supplies were uncertain of delivery. Engineering resources were not sufficiently mobilized. Machinery and machine tools were lacking, and transportation facilities were inadequate. The various Government Ministries which were set up to bring order to the complicated problem of war production, and to secure control of the economic structure of the nation, represented conflicting interests. In far too many instances they remained segregated in their own areas of activity with no interchange of information with other Departments. The standardization of contracts, the introduction of cost methods, and the correct use of business procedures were beyond the knowledge of some members of these Departments.

Experts had not been enlisted by the Government on a full-time basis. Controllers were selected for controlled trades from the trades themselves, and they retained a certain amount of self-interest in their fields. Only after some months was a satisfactory

allocation of duties secured. Only after waste of precious time were strikes and lockouts outlawed for the duration of the war. Luxuries finally were restricted both as to production and consumption; foreign exchange required for civilian needs was curtailed; imports were reduced by quotas, prohibitive duties and the rationing of transportation and foreign exchange. The bright side of the picture, however, was that large Government expenditures were financed, from the first day of war, on a pay-as-you-go basis, with borrowing requirements satisfied by funds secured at a low interest rate.

High taxation finally began to absorb some of the excess purchasing power accruing to citizens because of wage increases. Plentiful supplies of cheap money were made available continuously for the war effort. The outflow of capital was checked and restrictions were imposed on foreign balances. Existing commercial supplies were further curtailed as to sale through the imposition of sales taxes. The major problem remained that of marshaling, conserving and utilizing, to the best advantage, all economic resources available to the nation. As the war progressed seven essential elements appeared as of particular significance. These were: steel, coal, aluminum, oil, electric power, ships and armored vehicles.

Steel was required for the manufacture of machinery and munitions, for the manufacture of tanks, engineering, construction, and road and rail transportation. Coal was the principal source of power for war industries, and it was used as the basis of many by-products. In addition it was used in the production of various commodities, such as explosives, and was the basic material for synthetic oil and other substitute products. Aluminum, because it was the lightest of all metals except magnesium, was of great importance in the construction of aircraft. Electric power was used in large quantities in the manufacture of aluminum and other products. Oil provided the power for land, sea and air warfare, and supplied the driving energy in industry and agriculture. Ships were needed to transport war materials and foodstuffs to the point of use. Armored and other vehicles were required to carry out active combat and to transport vital materials within the country. A survey of these essentials, made in February 1942, indi-

cated that Britain and the other United Nations possessed larger supplies of these strategic assets than did the Axis nations, with the exception of ships. The shipping deficiency, however, has been somewhat offset by the fact that a shortage of ships in one area can be covered by a surplus in another section. The proper utilization of these essentials and other economic resources within Britain has been the responsibility of the War Cabinet and of the Ministries set up by it to control various aspects of industrial, personal and financial activity.

#### WAR CABINET

When Winston Churchill formed a Government on May 11, 1940 he introduced three members of the Labor Party in his Cabinet, and enlarged it to include the Lord President of the Council, the Chancellor of the Exchequer, and the Minister of Labor and National Service.

The effectiveness of the War Cabinet was retarded, in the early months of its operation, by the fact that Britain did not possess large resources of raw materials, agricultural products, idle plants, machine tools and unemployed skilled workers. The intensification and expansion of economic effort, with authority emanating from the Cabinet and based upon specific aspects of production, such as the manufacture of a gun, a tank, and a uniform, to provide only a few examples, were secured only after the elapse of some months.

Manpower proved to be a bottleneck in the war effort rather than shipping space which applied to the last war. British investments held abroad were smaller and less liquid in this war than in World War I, and facilities for foreign borrowing were much smaller. Taxation could not be relied upon to reap comparable returns with those of the last war as higher levels of taxation applied to all incomes than before the former conflict. Greater control, however, has been secured by the War Cabinet over the economic system as a whole. With the intensification of the war effort these controls have expanded in breadth and severity to the extent that they are much wider and much more drastic at the present time than at any previous period in British history.

At the end of 1941 the War Cabinet was constituted of Winston



Churchill in the dual capacity of Prime Minister and Minister of Defense, the Minister of Supply, Chancellor of the Exchequer, Secretary of State for Foreign Affairs, Lord Privy Seal, Minister without Portfolio, Minister of Labor and National Service, Lord President of the Council, Minister for Aircraft Production, Minister of State (representing the War Cabinet in the Middle East), and Chancellor of the Duchy of Lancaster (on special duty in the Far East on behalf of the War Cabinet).

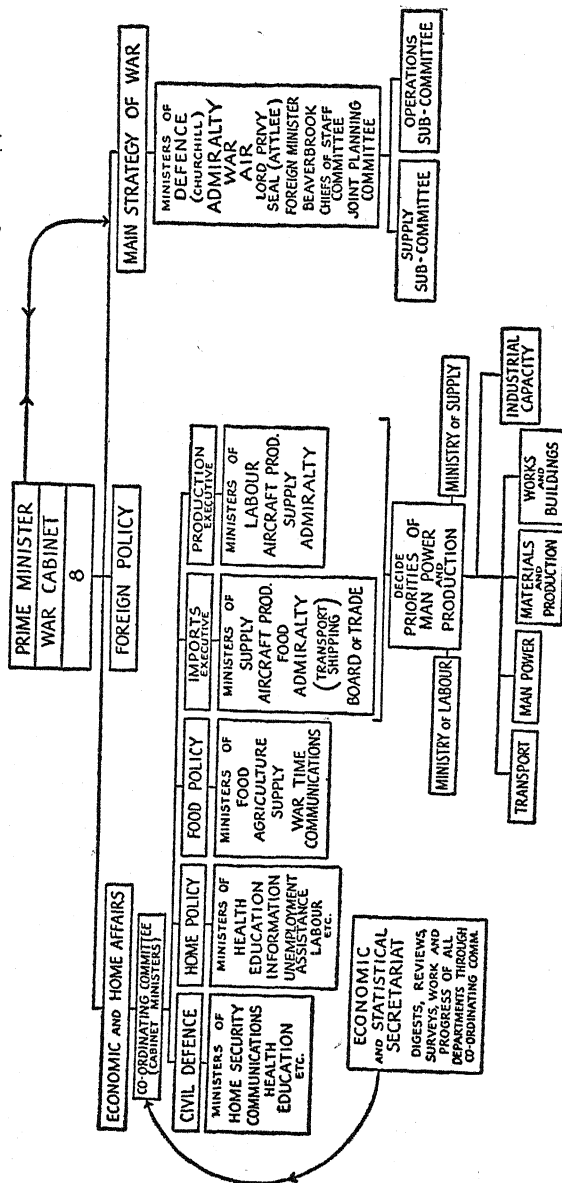
The following Ministers were not members of the War Cabinet: Secretary of State for Air; Secretary of State for India and Burma; Secretary of State for War; Secretary of State for Dominion Affairs; Secretary of State for the Colonies and Leader of the House of Lords; Lord Chancellor; Secretary of State for the Home Department and Minister for Home Security; First Lord of the Admiralty; Minister of Information; Minister of Economic Warfare; Secretary of State for Scotland; President of the Board of Education; Minister of Health; President of the Board of Trade; Minister of Agriculture and Fisheries; Minister of Shipping and Transport; Minister of Works and Buildings; Postmaster-General; and Minister of Food.

The organization of the Government at July 1941 is shown on page 14.<sup>9</sup>

A résumé of the changes in the War Cabinet, since the formation of the original Cabinet by Mr. Chamberlain on September 3, 1939, follows:

1. The original War Cabinet was composed of Mr. Chamberlain, as Prime Minister, and the following: Chancellor of the Exchequer, Secretary of State for Foreign Affairs, Secretary of State for War, Secretary of State for Air, Minister for the Coordination of Defense, First Lord of the Admiralty, Lord Privy Seal, and Minister without Portfolio. The Home Secretary and the Secretary for the Dominions, although not members of the Cabinet, had access to its meetings.
2. In April 1940, upon the resignation of Lord Chatfield as Minister for the Coordination of Defense, this post was abolished; Sir Kingsley Wood, Secretary of State for Air, and Sir Samuel Hoare, Lord Privy Seal, changed posts at that time, also.
3. In May 1940 Mr. Chamberlain's Government fell and Mr.

# ORGANIZED FOR WAR - GREAT BRITAIN, JULY, 1941



- Churchill was asked to form a Government. On May 11, 1940 his Cabinet consisted of himself as Prime Minister, and the Lord President of the Council, Lord Privy Seal, Secretary of State for Foreign Affairs, and Minister without Portfolio.
4. On August 2, 1940 Lord Beaverbrook, as Minister of Aircraft Production, joined the War Cabinet bringing the membership of that body to six.
  5. On October 3, 1940 Mr. Neville Chamberlain resigned as Lord President of the Council and Sir John Anderson was appointed to succeed him. Sir Kingsley Wood, as Chancellor of the Exchequer, and Mr. Ernest Bevin, as Minister of Labor and National Service, joined the Cabinet bringing the total membership to eight.
  6. On May 1, 1941 Lord Beaverbrook was appointed Minister of State in the War Cabinet. His successor at the Ministry of Aircraft Production, Lt.-Col. J. T. C. Moore-Barbazon, was not included in the Cabinet.
  7. On June 30, 1941 Lord Beaverbrook was appointed Minister of Supply. His successor as Minister of State was Captain Oliver Lyttleton who was appointed July 2, 1941. The Cabinet membership was then raised to nine.
  8. A new Ministry, that of Production, was created on February 5, 1942 with Lord Beaverbrook at its head. He retained his seat in the War Cabinet but his successor at the Ministry of Supply, Sir Andrew Rae Duncan, did not sit in the War Cabinet.
  9. Further changes in the Cabinet occurred on February 20, 1942. Mr. Attlee was appointed Deputy Prime Minister and also Secretary of State for Dominion Affairs and was given a seat on the Cabinet. Sir Stafford Cripps succeeded him as Lord Privy Seal, and in addition became Leader of the House of Commons. Lord Beaverbrook was invited to join the new War Cabinet but declined because of ill health. The Minister without Portfolio, Mr. Arthur Greenwood, and Sir Kingsley Wood, Chancellor of the Exchequer, were dropped from the War Cabinet, a move which reduced its size from nine to seven men.
  10. On February 19, 1942 Lord Beaverbrook ceased to be Minister of Production and Captain Lyttleton, in his post of Minister of State, assumed general supervision of production and was made Minister of Production on March 12, 1942.
  11. Mr. Richard Casey, the former Australian Minister to the United States, was called to the War Cabinet on March 19, 1942 as

Minister of State to represent the Cabinet in the Middle East with headquarters in Cairo.

12. The present War Cabinet is composed of the Prime Minister who also serves as Minister of Defense, the Secretary of State for Dominion Affairs and Deputy Prime Minister, Lord President of the Council, Secretary of State for Foreign Affairs, Minister of Production, Minister of Labor and National Service, and Minister of State. Lord Halifax, British Ambassador to the United States, resumes his responsibilities as member of the Cabinet when he is in Britain for purposes of consultation.

The British Government at September 1942 was made up as follows:

### *WAR CABINET*

Prime Minister, First Lord of the Treasury and Minister of Defence	Rt. Hon'ble Winston S. Churchill, C.H., M.P.
Secretary of State for Dominion Affairs (and Deputy Prime Minister)	Rt. Hon'ble C. R. Attlee, M.P.
Lord Privy Seal and Leader of the House of Commons	Rt. Hon'ble Sir Stafford Cripps, M.P.
Lord President of the Council	Rt. Hon'ble Sir John Anderson, G.C.B., G.C.S.I., G.C.I.E., M.P.
Secretary of State for Foreign Affairs	Rt. Hon'ble Anthony Eden, M.C., M.P.
Minister of Production	Rt. Hon'ble Captain Oliver Lytton, D.S.O., M.C.
Minister of Labor and National Service	Rt. Hon'ble Ernest Bevin, M.P.
Minister of State in the Middle East	Rt. Hon'ble R. G. Casey, P.C., D.S.O., M.C.

### *MINISTERS NOT IN WAR CABINET*

Lord Chancellor	Viscount Simon, P.C., G.C.S.I., G.C.V.O., O.B.E.
Chancellor of the Exchequer	Rt. Hon. Sir H. Kingsley Wood, M.P.

Secretary of State for War	Rt. Hon. Sir James Grigg, K.C.B., K.C.S.I., M.P.
Secretary of State for Air	Rt. Hon. Sir Archibald Sinclair, K.T., C.M.G., M.P.
First Lord of the Admiralty	Rt. Hon. A. V. Alexander, C.H., M.P.
Minister for Aircraft Production	Rt. Hon. Colonel J. J. Llewellyn, C.B.E., O.B.E., M.C., M.P.
Secretary of State for Home Affairs and Minister of Home Security	Rt. Hon. Herbert Morrison, M.P.
Secretary of State for the Colonies	Rt. Hon. Viscount Cranbourne
Secretary of State for India and Burma	Rt. Hon. L. S. Amery, M.P.
Secretary of State for Scotland	Rt. Hon. Thomas Johnston
Minister of Economic Warfare	The Earl of Selborne, P.C.
Minister of Supply	Rt. Hon. Sir Andrew Rae Dun- can, G.B.E., M.P.
Minister of War Transport	Rt. Hon. Lord Leathers
Minister of Food	Rt. Hon. Lord Woolton
Minister of Health	Rt. Hon. Alfred Ernest Brown, M.C., M.P.
Minister of Information	Rt. Hon. Brendan Bracken, M.P.
Minister of Works and Buildings and First Commissioner of Works	Rt. Hon. Lord Portal, D.S.O., M.V.O.
Minister of Agriculture and Fisheries	Rt. Hon. Robert Spear Hudson, M.P.
President of the Board of Trade	Rt. Hon. Hugh Dalton, M.P.
President of Education	Rt. Hon. Colonel R. A. Butler, M.P.
Chancellor of the Duchy of Lan- caster	Rt. Hon. Alfred Duff-Cooper, D.S.O., M.P.
Postmaster-General	Rt. Hon. W. S. Morrison, M.C., K.C., M.P.

*OTHER APPOINTMENTS*

Paymaster-General

Rt. Hon. Sir William Jowitt,  
K.C., M.P.

(Also responsible for post-war reconstruction, except in regard to the export surplus and Allied post-war relief which will be the responsibility of the President of the Board of Trade.)

Solicitor-General

Major Maxwell Fyfe, K.C., M.P.

Civil Lord of Admiralty

Captain R. A. Pilkington, M.C.,  
M.P.

The most important reasons for Cabinet changes made in 1942 included the desire, on the part of the Prime Minister, to secure a reduction in the total membership of the Cabinet and to increase the number of persons free from other departmental duties. In addition, he wished to eliminate from the Cabinet members with permanent posts abroad, to decrease purely party considerations in importance in relation to war problems, and to separate domestic ministerial duties of stimulating and coordinating the output of war materials throughout the United Kingdom from the problem of representing the British viewpoint in planning and coordinating outputs and allocations of war materials throughout the United Nations. In the Fall of 1942 Mr. Churchill asked Sir Stafford Cripps to become Minister of Aircraft Production, Herbert Morrison to assume his post in the War Cabinet as Home Secretary and Minister of Home Security, Anthony Eden to assume Sir Stafford's tasks as Leader of the House of Commons, and Colonel J. J. Llewellyn, former Minister of Aircraft Production, to serve in Washington as Resident Minister in charge of supply matters. Colonel Oliver Stanley replaced Lord Cranborne as Colonial Secretary, the latter becoming Lord Privy Seal in the place of Sir Stafford Cripps. The effect of these changes was to transfer Sir Stafford from the War Cabinet to an administrative department although he remained a member of the Cabinet's Defense Committee in which capacity he continued to plan the war effort, and to remove the holder of the post of Lord Privy

Seal from the War Cabinet. These changes in the Cabinet were received with favorable comment by the press and the public as they indicated the desire on the part of the Prime Minister to strengthen the Government and to curtail overlapping functions of various Ministries. In the consideration of these changes attention was redirected to the activities of the latter and to their revaluation in the light of current demands for their effective operation. In this survey the Ministry of Economic Warfare was subjected to examination and the importance of its work, in relation to the military and economic effort, was revealed as an essential element in the development of war strategy.

#### MINISTRY OF ECONOMIC WARFARE

The Ministry of Economic Warfare has been called the Scotland Yard of defense, a comparison which events have justified on a number of occasions. This Ministry, gaining in scope and prestige with the elapse of each month of active warfare, operating in virgin territory and unhampered by tradition, has carved out for itself an unwritten chapter in the economic aspects of modern combat. It has emphasized that now, more than at any previous time in history, the comparative strength of the opponents carries weight in the battles on land and sea; it has shown that the slightest superiority may be developed into a decisive factor; it has revealed that armies in the field, ships on the sea and planes in the air must be supported, at all times, by a strong, coordinated economic front at home.

To trace the beginning of this important Ministry it is necessary to go back before the war and look in upon the informal meetings at which a few civil servants, economists and business men, drawn together by their deep interest in economic warfare, discussed the problems which would confront Germany were war to be declared. The discussions of this group really marked the inception of the Ministry. They also furnished it with its original impetus. But at the moment of its organization the Ministry had not gained the recognition in the eyes of the Government and the public that it enjoys today. The full appreciation of its value to the country and in the interest of final victory has come to it through its skillful maneuvers on the home and diplomatic fronts.

As formally set up in September 1939 the Ministry of Economic Warfare was headed by a Minister who, although of Cabinet rank, was not a member of the War Cabinet.<sup>10</sup> Approximately 600 persons were employed on its staff of which 170 were on the headquarters staff. Of these a number maintained industrial, commercial, banking and financial connections, others were economists, and some previously had been employed in Government Departments, such as the Board of Trade, the Foreign Office and the Customs Service.

The Ministry's activities were twofold: first, it was concerned with the organization, conservation and utilization of resources for active warfare and, second, it was interested in securing the defeat of the enemy through strangulation by blockade and by other military and economic measures. At the time of its establishment in London it was stated that it was to be "a vital, offensive army, complementary to the operations of the three fighting services." While it was generally conceded that economic warfare alone could not secure a military victory it was nevertheless believed that, in combination with the military campaign, it would tend to make the enemy's economy brittle and susceptible to attack.

The Ministry, as it is now constituted, operates in a variety of ways. Its committees are responsible for contraband and enemy export control, foreign relations, and the negotiation of war trade agreements. Its neutral trade departments deal with purchases of goods from neutral countries and they record statistics of the trade of these countries with the enemy. Its export licensing department coordinates the blockade policy of the Ministry with the Board of Trade and with the Allied Governments established in London. Its shipping department aids the Ministry of Shipping in the issuance and control of documents necessary for shipping and consignment of merchandise. Another department, interested in the mobilization and control of enemy assets, collaborates with the Treasury.<sup>11</sup>

The large intelligence branch of the Ministry coordinates commercial information received from all over the world and circulates it to its staff as well as to Government Departments. An-



other department observes, through secret sources and by study of the German press and radio, economic conditions in Germany and German-occupied countries with the aim of determining the effectiveness of the blockade and of advising the Chiefs of Staff on the economic implications of any strategic plan.

The Ministry is in constant touch with the Foreign Office on matters of policy, and with the Treasury, the Board of Trade and the Ministry of Supply on matters of administration. It also offers advice to the various Service Departments on matters of intelligence. Because of the war it has assumed aggressive functions which, during peacetime, would be under the sponsorship of various Government Departments. The effective grouping of these activities under one Ministry has proved successful and has justified the creation and organization, for economic warfare, of a separate Ministry of Economic Warfare.

During 1941 the Ministry, by means of blockade and purchase of materials in neutral countries, imposed upon the enemy a serious shortage of rubber, oil, copper, steel and textiles. It supplied the Royal Air Force with a list of targets in Germany and in the Eastern Mediterranean, among which oil refineries and storage facilities were accorded first importance. Its control of exports covered all materials and products considered essential to the war effort and included lead, radium, cotton, rubber, oil drilling machinery and petroleum products.

One of the methods of securing its major objective, to bring economic pressure to bear on the enemy, was the search for contraband which was supplemented by agreements, treaties, assurances and guarantees made on a world-wide scale. The strength that has vitalized its activities has rested in its files, card indexes, statistics, lists of suspected traders and of inspected ships, and analyses of unusual movements of imports and exports of neutral countries. In its quarters, in the London School of Economics, just off Kingsway in the heart of London, are mapped out the movements of trade, the avenues of commerce and manufacture which are to be controlled by measures of economic warfare. Into them, too, is gathered all available information about the trade and output of enemies and neutrals for the compilation of black-lists of neu-

tral traders, and for utilization by the Navy which assumed the burden of economic warfare after Hitler liquidated all European neutrals.

The British Ministry of Economic Warfare has served as an example for its duplicate organization in the United States, the Board of Economic Warfare. The ingenuity of the former has been directed to smashing Germany's industrial machine, to cutting her off from sources of supply, to seizing her exports and depriving her of foreign exchange, to bidding up neutral goods to unattainable heights.<sup>12</sup> Its most important task, especially in the early months of operation, however, was that of the blockade.

#### THE BLOCKADE

One section of the Ministry of Economic Warfare was organized to engage in offensive warfare. This branch included: blockade, boycott of neutral firms, persuasion of neutral Governments to avoid trading with the enemy, granting of credits to neutrals, and undermining the morale of the enemy. Of these the first-named was by far the most important.<sup>13</sup>

The Ministry pursued a policy of long-distance blockade through neutral countries by the declaration as contraband, either permanently or conditionally, of a large number of commodities. In addition, it attempted to prevent all exports from Germany reaching other countries in order to deprive her of exchange to purchase food and essential materials for civilian and war use with the aim of forcing her to the point of exhaustion.<sup>14</sup> In peacetime, Europe imported 40% of fats and 8% of starches consumed. These commodities were placed under the blockade to prevent Germany from using fats for conversion into armaments and starches for the manufacture of alcohol.

The blockade was enforced with difficulty as it meant that all sea lanes to Europe be patrolled day and night, and that every ship on the seas be watched to prevent the running of contraband. It necessitated the enforcement of agreements by which neutral countries in Europe were permitted to obtain supplies only if assurances were given that these materials would not fall into the hands of the enemy. The first half year of war did not witness the attainment of a completely successful British blockade. Goods

poured from Italy into Germany. Neutral countries were unable to control the activities of German traders within their borders. It was apparent that drastic measures to control all neutral countries as well as the enemy would have to be initiated to assure that the blockade would become really effective.

The two phases of the blockade, which occurred before January 1940, included, first, the detention of ships pending inquiries whenever there was the slightest uncertainty as to their cargoes, with their release secured only on permission of the Contraband and Enemy Exports Committee in London; second, the registration of the War Trade Government Reprisal Order in Council of November 28, 1939 which empowered Britain to cut off enemy exports to neutral countries with the objective of depriving Germany of valuable foreign exchange by which she paid for imports and for propaganda activities in foreign countries.

In the four years of the World War Britain developed the blockade to a point of intensity comparable with other weapons of warfare. By means of ships patrolling enemy coastlines this power resulted in the mastery of the seas by the Allied nations and the control of the trade of all other powers. This struggle to secure a total blockade was of considerable duration but it was finally achieved. The conditions, however, which existed during the last war were entirely dissimilar to those of the present conflict. Then Russia, France and Italy guarded the German frontiers, and the British and French Empires, the United States and Japan controlled the sources of raw materials and all sea communications. In the present war conditions for a successful blockade were not evident, yet this weapon has been applied with reasonable success.

It must be realized that the effectiveness of the blockade is based upon sea power. Without the latter the former cannot exist. Not only has the Royal Navy had to be ever vigilant but all possible measures have had to be devised to take advantage of sea power and to apply it in the most advantageous manner.

#### WAR TRADE AGREEMENTS

The second phase in the operation of the blockade was the negotiation with neutral Governments, such as Sweden, Belgium,

Holland and Switzerland, of War Trade Agreements. To speed up the procedure of contraband control, agreements were reached with individual firms who were asked to furnish guarantees that they would not engage in contraband trade. Later these agreements with individuals were extended and negotiations of the War Trade Agreements with Governments of neutral countries were secured. These agreements held the objective of substituting the guarantees of the Governments for those of individual importers. They were aimed at making control more effective and, at the same time, easing the strain on the naval patrols, limiting re-exports to Germany by neutral countries of goods from overseas sources, and restricting these nations as to exports of domestic and manufactured products to ensure that supplies were not received by Germany from these countries while, at the same time, permitting neutrals to make reasonable imports for their own needs and for the accumulation of supplies. Neutral Governments were required to state that certain materials or goods would not be re-exported and that other goods would only be re-exported in certain volumes or to certain destinations. This procedure increased the rapidity with which contraband control operated but it did not prove an ideal arrangement.

Neutral countries wished to secure stocks of goods since they feared that, because of the war, no further supplies could be obtained. Some of them were not successful in imposing regulations, against trade with Germany, upon their traders. An additional step was necessary which would provide for the rationing, by Britain, of the imports of neutral countries.<sup>15</sup> The objective of this move was to maintain legitimate trade between Britain and neutral countries, and to guarantee that German imports of contraband and of vital war materials were curtailed or stopped entirely.

If guarantees could be obtained by the British Government no attempt was made to stop neutral countries from obtaining supplies required for their domestic requirements.<sup>16</sup> The importance of raw materials was evident from the declaration of war onward and most neutral countries were willing to give guarantees to Britain against their re-export to Germany. To secure them German agents had to evade the controls imposed by neutral coun-

tries through whose territory they expected to import contraband. Germany, for instance, before the entry of Russia into the war, had to import certain essential commodities by Siberia, which route proved slow, expensive and limited in capacity. She was cut off from direct and indirect access to most of the world sources of oil, vegetable oils, rubber, cotton and wool, copper, nickel and hardening metals. By this strategic plan the German metal and textile industries experienced difficulty in finding material with which to produce. Coal from the Ruhr and Silesia, formerly carried to Italy by sea, had to proceed by railway, with a capacity of only fifty trains of forty cars each day for an average journey of eight hundred miles, with the return trip made with unfilled cars.

In the markets of Southeastern Europe still accessible to Germany it has been possible for Britain to purchase commodities that Germany required or to bid up the prices which she had to pay to obtain them. German communications have been hampered by a well-planned and executed use of transport facilities controlled by Britain. But the main activities have been those of contraband control, closing Germany's overseas supply routes, and stopping leaks through neutral countries which protected Germany from the force of the blockade and supplied her with vital materials. In the early months of the war the British sea power served to deter blockade-runners from sailing and this procedure was emphasized rather than the seizure of their cargoes. However, in the first nine months of warfare, the amount of goods seized by the Contraband Committee amounted to more than 700,000 tons of various commodities.

While the blockade is not absolutely watertight it has been tightened since the inception of war and it has been revealed again and again how really effective this weapon has become. German-controlled Europe has been effectively blockaded; it has been cut off from sea traffic across the Atlantic, and the force of the blockade has been felt by all countries even more than in the early months of the war when Germany was protected against its full force by neutral countries.

Rations have been introduced for the remaining neutral countries in Europe and a blockade of all enemy-occupied territory,

including unoccupied France, has been enforced with increasing success. Exports from neutral countries in Europe were controlled and had to be covered by Certificates of Origin issued by British authorities in the country of origin. By March 1941 two-thirds of the total shipping tonnage in the world was operating under this certification. Of the remaining tonnage over half now consists of enemy ships or Allied vessels in enemy hands which are not seaworthy; less than one-sixth of the remaining tonnage is trading without regard to the requirement of approval. This has been accomplished in the midst of the war and in the face of many obstacles.

#### CONTRABAND CONTROL

With the declaration of war both sides drew up lists of goods which they considered as contraband whether sent directly to their opponents or by way of neutral countries.<sup>17</sup> The next step was to set up control bases at which all shipping bound for the enemy, or for neutral ports having access to enemy territory, had to submit to search for contraband. Neutral shippers were asked to accept voluntary inspection and any vessel which did not follow this procedure was liable to be stopped by warships and taken to a home port for search. This was contrary to practice obtaining in the last war when goods were detained only when evidence of contraband was discovered. Then the chief task of the blockade was to produce evidence sufficiently strong to convince impartial judges of the Prize Court that detention was justified under International Law.

In this war, however, after control bases had been set up at Weymouth, the Downs, Kirkwall, the North Foreland, Gibraltar, and Haifa cargo manifests of all passing ships were examined by the Ministry for evidence of contraband and destination. The Ministry's findings were referred to a Contraband Committee which rendered a decision as to whether cargoes should be detained. This procedure contrasted with that of Germany for she always attacked and sank ships without explanation and without providing for appeal to her Government.

For the first nine months after the creation of the Ministry of Economic Warfare its main problem was the administration of

contraband control. The declaration of war had found many ships on the seas carrying cargo consigned to the enemy, to neutral agents, or "to order." Large numbers of these ships were captured by the Naval Controls or were detained by the Customs in British ports. Each case was considered individually, on its particular merits, and decisions were rendered. Delay would have involved large sums of money, distressed passengers and led to diplomatic protests. Reports of cargoes of detained ships were transmitted to the Ministry by telegraph and teleprinter. They were presented as a case, with all pertinent information included, to the Contraband Committee with the task of this Committee to decide whether the cargoes should be released or seized for judgment of the Prize Court which sat publicly in the High Court of Justice.<sup>18</sup>

A thorough examination of facts was made before they were submitted to the Committee. The activities of all neutral traders and agents and their connections, on a pre-war and war basis, were scrutinized by one section of the Ministry, the normal trade and capacity of neutral countries by another. The conduct of Shipping Lines and Agencies, also, was considered, and a survey was made of the organization and operation of German industry and trade. All contributory information was collected in order that each cargo could be judged in relation to known facts. Information was furnished by the Diplomatic Missions, War Trade Reporting Officers, Naval Authorities, and other sources. Gradually it was possible to reduce the length of time required for making inquiries at home and abroad, for the marshalling of the case and making the decision, during which period the vessel was tied up in a control base or port. For example, in September 1939 the average period of detention on the Downs was nearly twelve days; by December it had been reduced to slightly over six. Delays, however, were not accepted willingly by neutral traders and their Governments urged the Ministry to find some method of alleviation.

The Ministry's chief problem was to ascertain that no essential goods consigned to the enemy reached their destination and that no items of contraband proceeding to neutral ports were destined for Germany or were likely to be resold to her agents. To further its work and to avoid delay shipping companies were encouraged

to send advance copies of the manifests of their vessels, with details of all cargoes carried and names of shippers and consignees, to the Ministry. Guarantees as to the use to be made of the goods had to be given. Many of the manifests and guarantees, to speed transactions, were sent by Transatlantic Clipper. Upon the arrival of the vessel the shipper's manifest was checked, the cargo examined and, if all was in order, the ship was permitted to proceed. If, however, contraband was disclosed or additional cargo, not entered in the manifest, was found the former was confiscated and inquiries were made concerning the latter. In the meantime the ship was held and all costs arising from voyages delayed through search had to be borne by the British Government. The search was directed, especially, to the discovery of lead, nickel, copper and fats in the cargoes of ships detained because of their importance to the war effort.

The Ministry was aided in its work by confidential information received from its various agents living abroad who reported on the final destination of all contraband goods shipped to neutral ports. No further supplies of such goods were permitted to reach any firm discovered to be reselling them to enemy agents. New methods of dodging control, however, were tried at various times and new devices were devised to stop these illegitimate practices. For example, one enemy trading agency used almost one hundred different aliases in various neutral countries. On numerous occasions the Germans tried to import large quantities of food and small, valuable goods, such as industrial diamonds, in parcels or letters sent from neutral countries. This practice led to detention of neutral mail for examination. Of all the cargoes seized only 10% represented foodstuffs of which a large amount could be converted into enemy war materials. This small percentage controverts the assertion that seizures have been largely directed to foods which have meant hardship to civilian populations. In order to subdivide its work the Ministry became responsible for answering questions about ships and cargoes that had been detained by Contraband Control Authorities, while a Procurator-General assumed control as soon as a cargo was seized.

As a rule the Ministry did not attach significance to the amount of cargo seized. Rather importance has been accorded the cancella-



tion of goods consigned to a German destination for fear of seizure. This quantity cannot be calculated but much of the normal overseas trade of that country has been abandoned for fear of loss. The volume of goods seized in prize has continued to diminish not because of the ineffectiveness of contraband control but through the limitation of shipping facilities to consignments about which there has been no doubt that they would not reach the enemy. Shippers have expressed their reluctance to accept consignments where documents were not furnished at the point of embarkation as they knew ships would be detained and loss incurred. This change in the opinion of shippers, brought about gradually by the restrictive policy of the Ministry, has served both to operate effectively against illegitimate trade and to reinforce Government rules and procedures.

#### NAVICERTS

Traders who were carrying on orthodox shipments to neutral nations and neutral importers, however, continued to urge the Ministry of Economic Warfare to devise a method by which authentic trade would be facilitated. In December 1939 an answer to their plea was made by the introduction of the navicert system designed as a friendly gesture to bona fide neutral traders. It was operated on a voluntary basis and made a concession to traders who wished to know whether there was any objection to their consignments and whether their goods would be detained on arrival at a Control Base. Under it, a legitimate trader could load his ship, make repairs, secure reinsurance, obtain consular approval and sail without interference, and under it the British blockade became completely effective.

When navicerts were conceived they were available for all consignments from the United States, the Argentine, Brazil and Uruguay to all neutral European countries except Russia. They were issued by British authorities in the country of export if an assurance were given that the consignment would not reach Germany. Through their use, delay at control bases was reduced to a minimum and, in many cases, entirely eliminated. Certificates of Origin and Interest, similar to navicerts, were developed for consignments outward bound from European countries if an assur-

ance were given that the goods were at least 75% of neutral origin.

By June 1940 it was no longer feasible for naval patrols to watch the enemy's large coastline. The next phase of economic warfare was brought about by the movements of Germans over Western Europe and by the entry of Italy into the war. These changes meant that patrols could not be imposed as a static net to snare possible ships but that, instead, they had to be concentrated upon the capture of those ships which were known to be carrying contraband and which were hunted upon specific instructions of the Ministry.

The Ministry, in order to adapt its requirements to the changed theatre of war, proclaimed that all ships sailing to all countries in Europe from Finland to the Atlantic Islands must have every item of cargo covered by navicerts or by British or Allied Export licenses. Passengers who were not approved could not be carried and facilities were provided for the search for contraband in all mails transported.

In addition, ship warrants were issued to all vessels belonging to those owners who gave satisfactory guarantees of their ships' activities. These documents assured them access to all kinds of facilities, such as bunkers, repairs and stores. At the beginning of the navicert and warrant systems some sailings were made without regard to these conditions but the number decreased rapidly as offending ships were penalized by seizure both of cargo and ship. By March 1941 about 70% of the world's tonnage of merchant shipping, including British and excluding Axis shipping, was entitled to the use of navicerts. Under this system the Ministry's control over the importer assumed a secondary place with jurisdiction over the exporter being accorded primary consideration. The navicert area was reduced by the German occupation of the Balkans and Finland but authentic neutral trade was not curtailed as shown from the fact that of 68,500 applications for navicerts received from August 1940 to March 1941 two-thirds were granted.<sup>19</sup>

Under the navicert system the blockade became concentrated on the ports, instead of on the seas, through the imposition of

control at a remote point. All ships authenticated and permitted to sail toward Europe, through it, became known to British authorities and were easily recognized on the seas. Blockade-running was rendered more difficult and trade was facilitated with those neutral countries which had been accorded the stamp of approval. The navicert system was strengthened and extended by a plan of export licensing put into operation by the British Dominions and Colonies. In addition, a mailcert system was introduced in July 1941 under which a document, similar to a navicert, was designed to ensure that parcels would be passed through British examination stations and that they did not experience delay at these points beyond a minimum period necessary to ascertain that their contents conformed to their description.

In February 1941 the War Trade Department of the British Embassy announced that no navicerts or mailcerts for shipments from the United States would be issued after the end of the next month because of the coordination and simplification of the navicert and export licensing procedures of the two countries. This arrangement related only to American exports by ship, post, and plane to present navicert countries of destination. The procedure governing shipments from Europe to the United States was not affected by the curtailment of the navicert system. Under the plan only one certificate is necessary for exporters to send goods from the United States to certain countries and their Colonial possessions in Europe, Africa and the Near East. The Board of Economic Warfare, established in Washington in August 1941, received applications for export licenses for goods to be shipped to these countries and, from April 1, certificates fulfilling the same purpose as mailcerts were issued by the United States Collectors of Customs to vessels leaving American ports.

#### BLACKLISTS

At the declaration of hostilities, Parliament passed the Trading with the Enemy Act which forbade British firms to trade with Germany or with German-controlled companies. In pursuit of this policy, the Ministry issued blacklists of all firms which did not meet its specifications. These were aimed at undermining the

enemy's credit in neutral countries, providing these nations with alternative markets for their exports and informing the world of traitor traders.

This weapon was wielded jointly with the United States, culminating in February 1942 with the blacklisting of persons and concerns in neutral countries discovered to be dealing with the Axis. Arrangements were made for the exchange of information regarding these offenders by both Governments and between the Diplomatic Missions of the two countries. The British Statutory List and the American Proclaimed List of firms in Latin America trading with the Axis nations have been developed to the point at which they have become approximately identical.

To secure the best possible exchange of information of this nature two representatives of the United States Government became full members of the Blacklist Committee of the Ministry of Economic Warfare in London and a British representative was accorded a place on the Proclaimed List Committee in Washington. In January 1942 a Joint Strategy Board was set up with authority to allocate to all of the United Nations finished war equipment produced in the United States or in Great Britain. It was intended that representatives of the Ministry of Economic Warfare, in the latter country, and the Board of Economic Warfare, in the former, would maintain close collaboration with each other.

Another weapon of economic warfare developed by the Ministry was the system of pre-emption whereby purchases were made of goods which would otherwise have been available to the enemy. It has been promoted by the United States Licensing List and by the purchase program of this country in Latin America. Pre-emptive purchases, made in the Balkans, have been particularly effective in keeping goods out of enemy hands. In some instances, although goods were finally secured by Germany they were bid up by the Ministry to a figure well beyond their real value to the enemy.

#### SUMMARY OF ACTIVITIES

Although contraband control and control of enemy exports, the stopping of enemy supplies and the freezing of foreign exchange

have been the chief weapons of the Ministry it has carried on additional activities of importance. The policy of blacklisting enemy-controlled firms still operating in neutral countries, already referred to, has been another attempt to cut off enemy sources of foreign exchange. Enemy assets abroad have been controlled as far as possible. The United States cooperated, before her entry into the war, in the navicert and ship warrant system, and later by licensing exports of key commodities to destinations from which they might reach the enemy, by refusing to trade with enemy controlled firms in South America, and by preclusive purchases of supplies destined from the enemy.

The effectiveness of the Ministry's activities has been evidenced by the growing scarcity of consumers' goods and services in enemy countries, by their increasing failure to maintain and replace bombed industrial plants and equipment, and by their diminished supplies of a military nature essential to the support of armies in the field.<sup>20</sup> The use of propaganda in the undermining of the morale of the enemy has assumed such an important aspect of economic warfare that a separate Committee of Economic Warfare has been set up to take over all propaganda functions formerly possessed by the Ministry of Economic Warfare. Another important section of the latter Ministry is devoted to constant surveillance of neutral and conquered countries of Europe in relation to their Axis connections.

The Ministry's staff maintains regular check of the effect of the blockade of all countries upon which it is imposed and offers valuable information to the Chiefs of Staff on economic implications of any military plan.<sup>21</sup> Germany's present deficiency in oil, rubber, textiles, leather, steel-hardening metals, copper and vegetable oils is largely the result of the ever-watchful, restrictive activities of the Ministry. This work has been strengthened by the Russian campaign which has closed Germany's line to the Far East by which she obtained vegetable oils, rubber and silk. The Marseilles leak, however, still is open and furnishes Germany with vegetable oils and phosphates.

It is recognized that economic warfare cannot secure a military victory but instead that it assists in securing a final victory. The defeatist feeling, first by civilians in occupied countries, Italy

and Germany, later by industries in German Europe, and finally by the German armies in the field will be the mark of the effectiveness of the Ministry. It is recognized today that the blockade may tip the scale in favor of the United Nations, especially when its progressive application reaches its full effect.

In the early stages of the war the Ministry was the sole link between the United States as well as with the important blocs of European, Latin American and Far Eastern neutrals. Its intelligence department has continued to fight against the economic systems of the Axis powers, outlining industrial, trade and transport targets for the Royal Air Force. Data collected by its experts have been used as the basis for decisions in the whole effort of planning military strategy.

The Ministry's expert staff, card indexes and statistics have furnished the War Cabinet, Foreign Office, Ministry of Information, and the Service Departments, on more than one occasion, with valuable, current economic information. Its collaboration with the American Board of Economic Warfare is only beginning to operate, and there are many fields open for mutual consideration and decision by the two countries on matters of an economic nature.

Since the beginning of this war pre-emptive purchases, made jointly with the United States, have been concentrated in South America. Blacklists have been extended through inclusion of many neutral firms controlled by or trading with Japan. In spite of the reduction in the number of neutral and non-belligerent nations the staff of the Ministry is kept busy controlling their trade. Public opinion has stressed that economic warfare must proceed until the close of the war and that it should remain under the control of an independent Government Department. This stand was recognized in March 1942 when, although its Minister, Hugh Dalton, was named head of the Board of Trade and a new official followed him at the Ministry, its organization and functions remained intact. And its ability to furnish facts of significant military value has been demonstrated on a number of recent occasions. For instance, from economic information available in Ministry files it was possible to determine, some weeks before the

events occurred, the approximate date of the German attack upon Russia and of the entry of Japan into the war.

The Ministry has begun to play an important part in the joint strategy and pooling of resources of the United States and Great Britain. For over two years it has developed files, experience and techniques which now are of value to the United States. Staffed with the minimum number of employees, smaller than most Government Departments, it continues to accumulate statistics, to make plans, and to devise methods by which the enemy is weakened economically. In this process the strengthening of the home economy, as it is related to the economic structure of the enemy, has been emphasized.

The valuable experience and data of the Ministry of Economic Warfare, in coming months, should prove of increasing value. Although much of its work remains hidden in the minds of its staff and in the files of its office its true tactics and its real effectiveness await revelation at the end of the war. When the fascinating, secret history of its activities is written its methods, at all times flexible and responsive to the challenge imposed by the enemy, will be evaluated in proportion to their effect in shaping the war economic.

#### ANGLO-AMERICAN COLLABORATION

In August 1941 the United States Government created the Economic Defense Board with the purpose of directing American economic warfare against the Axis powers and of formulating domestic policies. In January 1942 a Joint Strategy Board was set up with authority over the allocation to all the United Nations of finished war equipment produced in the United States and Great Britain.

The members of this Board consist of the United States Army Chief of Staff, the Chief of Naval Operations, the Commander in Chief of the United States Fleet, the Chief of Army Air Forces, and the chiefs of the permanent British military, naval and air missions in the United States. A Joint Raw Materials Committee, under the Chief of the Materials Division of the Office of Production Management and Sir Clive Baillieu of the British Supply Council, was organized to direct the Allied effort to obtain and

allocate all raw materials which were not plentiful because of the Japanese drives against Malaya and the Netherlands Indies. A Joint Shipping Committee, under the Chairman of the Maritime Commission, and Sir Arthur Salter, Head of the British Shipping Mission, has started to secure the solution of problems connected with the joint utilization of available tonnage. Close contact will be maintained, also, between experts in the two Governments, and it is intended that the representatives of the Ministry of Economic Warfare will maintain this contact with the American Board of Economic Warfare. Closer collaboration between Great Britain and the United States was secured on January 27, 1942 with the establishment of three Anglo-American committees to administer jointly shipping and munitions assignments, and raw materials of the two nations. To the Combined Shipping Adjustment Board President Roosevelt named Rear Admiral E. S. Land, and Sir Arthur Salter and Lord Leathers were selected to serve as the British representatives. The Munitions Assignments Board had Harry L. Hopkins and Lord Beaverbrook as members, and on the Combined Raw Materials Board William L. Batt, Chief of the Materials Division of the American War Production Board, served jointly with Lord Beaverbrook and Sir Clive Baillieu.

The text of the announcement of the establishment of these three boards to coordinate further the war effort follows:

To further coordination of the United Nations war effort the President of the United States and Prime Minister Churchill have set up three boards to deal with munitions assignments, shipping adjustment and raw materials. The functions of these boards are outlined in the following statements.

Members of the boards will confer with representatives of the Union of Soviet Socialist Republics, China and such other of the United Nations as are necessary to attain common purposes and provide for the most effective utilization of the joint resources of the United Nations.

#### *Combined Raw Materials Board*

A planned and expeditious utilization of the raw material resources of the United Nations is necessary in the prosecution of the war. To obtain such a utilization of our raw material resources in the most



efficient and speediest possible manner, we hereby create the "Combined Raw Materials Board."

This Board will:

- (a) Be composed of a representative of the British Government and a representative of the United States Government. The British member will represent and act under the instructions of the Minister of Supply. The Board shall have the power to appoint the staff necessary to carry out its responsibilities.
- (b) Plan the best and speediest development, expansion and use of the raw material resources, under the jurisdiction or control of the two Governments, and make the recommendations necessary to execute such plans. Such recommendations shall be carried out by all parts of the respective Governments.
- (c) In collaboration with others of the United Nations, work toward the best utilization of their raw material resources, and, in collaboration with the interested nation or nations, formulate plans and recommendations for the development, expansion, purchase or other effective use of their raw materials.

#### *Munitions Assignments Board*

1. The entire munition resources of Great Britain and the United States will be deemed to be in a common pool, about which the fullest information will be interchanged.
2. Committees will be formed in Washington and London under the combined Chiefs of Staff in a manner similar to the Southwest Pacific Agreement. These committees will advise on all assignments both in quantity and priority, whether to Great Britain and the United States or other of the United Nations in accordance with strategic needs.
3. In order that these committees may be fully apprised of the policy of their respective governments, the President will nominate a civil chairman who will preside over the committee in Washington, and the Prime Minister of Great Britain will make a similar nomination in respect of the committee in London. In each case the committee will be assisted by a secretariat capable of surveying every branch and keeping in touch with the work of every sub-committee as may be necessary.
4. The civilian chairmen in Washington and London may invite representatives of the State Department, the Foreign Office or Production Ministries or agencies to attend meetings.

*Combined Shipping Adjustment Board*

1. In principle, the shipping resources of the two countries will be deemed to be pooled. The fullest information will be interchanged.
2. Owing to the military and physical facts of the situation around the British Isles, the entire movement of shipping now under the control of Great Britain will continue to be directed by the Ministry of War Transport.
3. Similarly, the appropriate authority in the United States will continue to direct the movements and allocations of United States shipping, or shipping of other powers under United States control.
4. In order to adjust and concert in one harmonious policy the work of the British Ministry of War Transport and the shipping authorities of the United States Government, there will be established forthwith in Washington a Combined Shipping Adjustment Board, consisting of a representative of the United States and a representative of the British Government, who will represent and act under the instructions of the British Minister of War Transport.
5. A similar adjustment board will be set up in London consisting of the Minister of War Transport and a representative of the United States Government.
6. In both cases the executive power will be exercised solely by the appropriate shipping agency in Washington and by the Minister of War Transport in London.

On February 23, 1942 an Anglo-American economic pact was signed by Sumner Welles, Acting Secretary of State, and Viscount Halifax, the British Ambassador. The Articles of the agreement follow:

1. The Government of the United States of America will continue to supply the Government of the United Kingdom with such defense articles, defense services and defense information as the President shall authorize to be transferred or provided.
2. The Government of the United Kingdom will continue to contribute to the defense of the United States of America and the strengthening thereof and will provide such articles, services, facilities or information as it may be in a position to supply.
3. The Government of the United Kingdom will not without the consent of the President of the United States of America transfer

title to, or possession of, any defense article or defense information transferred to it under the act or permit the use thereof by any one not an officer, employee, or agent of the Government of the United Kingdom.

4. If, as a result of the transfer to the Government of the United Kingdom of any defense article or defense information, it becomes necessary for that government to take any action or to make any payment in order fully to protect any of the rights of a citizen of the United States of America who has patent rights in and to any such defense article or information, the Government of the United Kingdom will take such action or make such payment when requested to do so by the President of the United States of America.
5. The Government of the United Kingdom will return to the United States of America at the end of the present emergency, as determined by the President, such defense articles transferred under this agreement as shall not have been destroyed, lost or consumed and as shall be determined by the President to be useful in the defense of the United States of America or of the Western Hemisphere or to be otherwise of use to the United States of America.
6. In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom full cognizance shall be taken of all property, services, information, facilities, or other benefits or considerations provided by the Government of the United Kingdom subsequent to March 11, 1941, and accepted or acknowledged by the President on behalf of the United States of America.
7. In the final determination of the benefits to be provided to the United Kingdom in return for aid furnished under the Act of Congress of March 11, 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations. To that end, they shall include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment of international commerce, and to the reduction of

tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the Joint Declaration made on August 12, 1941, by the President of the United States of America and the Prime Minister of United Kingdom.

At an early convenient date, conversations shall be begun between the two Governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and of seeking the agreed action of other like-minded governments.

8. This agreement shall take effect as from this day's date. It shall continue in force until a date to be agreed upon by the two Governments.

In order to complete the organization needed for the utilization of the combined resources of the United States and the United Kingdom for the prosecution of the war on June 9, 1942 a Combined Production and Resources Board, and a Combined Food Board were established. Their set-up follows:

#### COMBINED PRODUCTION AND RESOURCES BOARD

The Board shall consist of the Chairman of the War Production Board, representing the United States, and the Minister of Production, representing the United Kingdom.

The Board shall:

- (a) Combine the production programs of the United States and the United Kingdom into a single integrated program, adjusted to the strategic requirements of the war, as indicated to the Board by the Combined Chiefs of Staff, and to all relevant production factors. In this connection, the Board shall take account of the need for maximum utilization of the productive resources available to the United States, the British Commonwealth of Nations, and the United Nations, the need to reduce demands on shipping to a minimum, and the essential needs of the civilian populations.
- (b) In close collaboration with the Combined Chiefs of Staff, assure the continuous adjustment of the combined production program to meet changing military requirements.

To this end, the Combined Chiefs of Staff and the Combined Munitions Assignments Board shall keep the Combined Production and Resources Board currently informed concerning military requirements, and the Combined Production and Resources

Board shall keep the Combined Chiefs of Staff and the Combined Munitions Assignments Board currently informed concerning the facts and possibilities of production.

To facilitate continuous operation, the members of the Board shall each appoint a Deputy; and the Board shall form a combined staff. The Board shall arrange for such conferences among United States and United Kingdom personnel as it may from time to time deem necessary or appropriate to study particular production needs; and utilize the Joint War Production Staff in London, the Combined Raw Materials Board, the Joint Aircraft Committee, and other existing combined or national agencies for war production in such manner and to such extent as it shall deem necessary.

#### COMBINED FOOD BOARD

The purpose of the Board shall be to coordinate further the prosecution of the war effort by obtaining a planned and expeditious utilization of the food resources of the United Nations.

The Board will be composed of the Secretary of Agriculture and the Head of the British Food Mission who will represent and act under the instruction of the Minister of Food.

The duties of the Board shall be:

To consider, investigate, inquire into, and formulate plans with regard to, any question in respect of which the Government of the U.S.A. and the U.K. have, or may have, a common concern, relating to the supply, production, transportation, disposal, allocation or distribution, in or to any part of the world, of foods, agricultural materials from which foods are derived, and equipment and non-food materials ancillary to the production of such foods and agricultural materials, and to make such recommendations to the Governments of the U.S.A. and the U.K. in respect of any such question. To work in collaboration with others of the United Nations toward the best utilization of their food resources, and, in collaboration with the interested nation or nations, to formulate plans and recommendations for the development, expansion, purchase, or other effective use of their food resources.

The Board shall be entitled to receive from any Agency of the Government of the United States and any Department of the Government of the United Kingdom, any information available to such Agency or Department relating to any matter with regard to which the Board is competent to make recommendations to those

Governments, and in principle the entire food resources of Great Britain and the United States will be deemed to be in a common pool, about which the fullest information will be interchanged.

The Combined Boards are viewed as the basis for securing economic unity during the war and post-war periods when international relations are of the utmost importance. The joint machinery can be utilized during the "long armistice" which may follow this conflict and should continue after it as an international economic and military arrangement. For example, the Combined War Materials Board might operate in the post-war period as a method of providing for the purchase and distribution of raw materials for the entire world as suggested by Article Four of the Atlantic Charter. It is already apparent that wartime economic ties cannot be severed immediately at the conclusion of hostilities as this would lead to chaos. As international cooperation is viewed as an important element in the post-war world the wartime collaboration of Britain and America should prove of infinite value in laying the foundation for permanent peace.

#### NECESSITY FOR MAXIMUM EFFORT

No war in history has emphasized the economic aspects of mobilization and of utilization of resources to the degree of the present conflict.<sup>22</sup> After the initial stocks of armaments and essential supplies were exhausted the struggle of the British economic system against that of the enemy was immediately apparent.

After nine months of active warfare the strength of these initial resources and the degree to which potential resources had been converted into actuality assumed positions of importance. The pooling of the resources of the United Nations was a further step in the direction of conserving and using them in the most advantageous manner.

As the democratic, liberal economic system of Britain has been subjected to control and forced into a war pattern the nation has become a more serious competitor of her totalitarian enemies. Through the further strengthening of her war economy, the elimination of waste and inefficiency, and the devotion of persons and pounds to the war effort the full benefit of economic control

has become apparent. Constant attention to the many, minute factors composing the economic system has been recognized as an essential element for final victory. Through this emphasis it has become impossible for the Chancellor of the Exchequer to incorrectly gauge the cost of running the war machine and to impose impossible financial burdens upon citizens. Wages and prices no longer move in sections bearing no relation to the war. Extra war earnings do not flow into depleted markets. The prices of food and transportation do not rise in inflationary spirals. Men and plants do not stand idle, unutilized by the war effort.

This much has been accomplished and more as succeeding chapters will indicate. Each month following the declaration of war has seen an intensification of the war effort through further discipline of men, materials and money in a supreme drive to defeat the enemy wherever he may be discovered. Each month has witnessed the attainment of control of the British economy to the point where, today, it invites examination, an outstanding example of the ability of a democratic country to eliminate its weaknesses and to enhance its advantages for the rigorous demands of modern warfare.

## CHAPTER II

### EXPANSION OF PRODUCTION

Production has been recognized by all authorities as the indispensable condition of striking power in modern warfare.

The great inadequacy of British production, compared with that of Germany, was apparent from the first day of war. Industrialists in the latter country had devoted their machines and talents, in the years immediately preceding the declaration of war, to preparing for war. The inception of hostilities, however, found British manufacturers disorganized, incapable of increasing their outputs and coordinating their efforts with those of their Government. The change-over from a peacetime to a wartime productive basis was accomplished so slowly that even after ten months of war potential resources had not been completely realized. Consumers' goods were produced simultaneously with war materials, competing with them in the demand for vital materials and labor. Much of the equipment in factories had not been adapted to war production, and far too much industrial capacity remained idle.

In spite of the necessity for speed and efficiency, Government contracts were not let promptly, and continuity of output was not assured by advance orders. No standardization or simplification of design was attempted, and specifications were not related to the supplies of material and skilled labor available in the nation. To consider the problem of standardization alone, only in recent months have merchant ships at Tyneside been built to a single pattern to permit the pre-fabrication of their component parts by mass production methods. The simplification of design was secured, finally, through the efforts of the Admiralty which now supplies plans direct to shipbuilders.



Delays and frustrations were inevitable as business executives tended to consider production secondary to finance, a viewpoint which has been refuted by the course of military events, and to refuse to view output capacities in relation to productive units, materials and men. Business companies, on the one hand, and Government Departments, on the other, studied their problems only in segments and did not curtail their personal disputes in view of the desperate national situation.

Drastic change was demanded on the part of the Government through the enactment of essential measures to mobilize productive resources, and to subject them to unified control, as well as to eliminate overlapping of effort, misdirection of energies and waste of vital materials. With the elapse of each month since September 1939 increasing controls have been imposed on the primary raw materials used, the methods of production, the combination of plants, designs, tools, engineering skills and managements into a productive pattern so that, today, these controls are much more drastic than at any period, peacetime or wartime, in British experience.

#### ENACTMENT OF EMERGENCY POWERS BILL

The Government made the choice of restricting the freedom of production and labor by passage, on May 22, 1940, of the Emergency Powers (Defense) Bill which provided it with wide powers of control over industry.<sup>1</sup> The Ministers named in the Act were empowered to regulate or prohibit the production, treatment, storage, transportation, distribution, disposal, use or consumption of articles. Any company engaged in essential production could be regulated, and provision was made for obtaining relevant information, for the maintenance of accounting records, and for the inspection of premises. By the measure war industries and the export trades were provided with priority over every other type of activity in the country.

A similar measure, previously enacted on August 24, 1939, had empowered the Crown to take possession of and to assume control over any property or undertaking, but it specifically forbade any form of industrial conscription. Under it, final decisions as to

questions of priority had been passed on to a Ministerial Committee which maintained sub-committees dealing with labor, production, materials and transportation. Serious difficulties had developed under this plan as companies had not accepted, in all cases, the orders submitted by the Government. Bottlenecks had developed in a number of production areas. The work of the Ministry of Aircraft Production had fallen behind because of shortages of skilled mechanics and insufficient supplies of machine tools, and the continuous flow of raw materials could not be maintained. The controllers, appointed in February 1940 to allocate materials between industries, were so immersed in their own particular fields that they did not distribute supplies impartially and systematically.<sup>2</sup> They had tended to draw upon accumulated stocks and had not built up new reserves for the future.

By the provisions of the Emergency Bill of 1940 the Ministry of Labor was granted power to direct any person to perform any task, and to prescribe all the aspects of employment. Control was extended to employers, also. A Munitions Board was set up to overhaul the armaments industry and to decide the safe areas of the country in which plants should be constructed. Emergency Machine Tool Armament Corps were organized and composed of mobile units of expert operators and demonstrators of machine tools to remedy the problem of scarcity of machine tools. They were permitted to remove idle tools from a plant without appeal, to divide labor into day and night shifts to ensure that tools were used continuously, and to require the return, to them, of any tools not used in the proper manner.

#### CONSCRIPTION OF PRODUCTIVE RESOURCES

It has taken Britain three years of war to reach approximately total productive capacity. In this process Government expenditures have risen to more than 60% of the national income, nine times in amount those of the year 1938-1939 and far surpassing the most costly year of the World War. Some conception of this increase can be obtained from the fact that, although in the Budget for 1936-7 defense expenditures stood at £186,000,000 and non-defense outlays at £617,000,000, in the 1941-2 Budget they totaled £3,500,000,000 and £707,000,000, respectively. The 1942-3 Budget

estimated expenditures at £5,286,479,000 of which £4,250,000,000 was for defense.

Numerous mistakes were made in the Government's plan to conscript the nation's productive resources. In the early months of the war no policy was established for the curtailment of the consumers' goods industries. The necessary leadership in the training of men and women for war production was lacking. No committees of technicians, with powers comparable to those of the agricultural committees which had been organized, were set up to advise employers on the expansion of their production and on the dilution of their skilled workers.

Although the Government had made a pre-war census of plants and machines available for war production and had estimated the need for expansion in certain areas it failed to comb the retail trade and the commerce and service occupations to ascertain that no single man, machine or material was wasted. It lacked the initiative for this task and left industrialists to fend for themselves, competing with each other, relying at all times on peacetime competitive methods to eliminate inefficiencies, and depending upon the profit motive to encourage output. Central organization was not secured, and the hindrances of habits of mind and instincts of self-preservation continued to the detriment of the national interest. Most culpable was the Government itself because it refused to supply the driving power to the productive process.<sup>3</sup> A lesson which can be learned from British experience is that Government control, involving the temporary suspension of normal privilege and freedom of business enterprise, is an inherent part of any war effort, and that it should be exercised as early and as drastically as possible. The United States has yet to learn this lesson and to absorb the thought that her civilian economy must be cut to the bone with the entailment of sacrifice on every hand. The Select Committee on National Expenditure, conceived in Britain to consider and evaluate Government outlays, has issued reports from time to time criticizing the operation of Government Departments and stressing the necessity of curtailing needless civilian expenditure.

At the end of 1941 the organization of the Government for war production was as follows:

Organization of War Production at end of 1941 based on statements of Prime Minister in the House of Commons Feb. 22 and July 29, 1941 and statements in the Ministry of Labor Gazette

- I. War Cabinet (policy forming)
  - (a) Prime Minister (interpreting decisions)
  - (b) Lord President of Council (steering)
  - (c) Planning Committee (advisory).
- II. Import Executive (responsible to I. (a), (b) and (c) above)
  - (a) Ministry of Supply
  - (b) Ministry of Aircraft Production
  - (c) Admiralty
  - (d) Ministry of Food
  - (e) Board of Trade.
- III. Ministry of War Transport and Ministry of Labor (responsible to II. (a), (b) and (c) above) operating as Handling Departments to carry out the policy of the Import Executive.
- IV. Production Executive (responsible to I. (a), (b) and (c) above)
  - (a) Ministry of Labor (responsible to Production Executive)  
Deals with labor supply direction and training, national service, industrial recruitment, factory welfare, industrial relations, employment of aliens, etc.
  - (b) Ministry of Supply (responsible to Production Executive)  
Controls supplies, produces munitions, explosives and chemicals, tanks and transport, equipment and stores of clothing, etc., certain common user articles produced for other Ministries, machine tools
  - (c) Ministry of Aircraft Production (responsible to Production Executive)  
Produces aircraft and equipment supplied by the Ministry of Supply
  - (d) Admiralty (responsible to Production Executive)  
Produces ships and articles such as naval ordnance not provided by Ministry of Supply
  - (e) Ministry of Works and Buildings (responsible to Production Executive)  
Equips Government factories, hostels, handles factory construction, controls and supplies building materials
  - (f) Board of Trade (responsible to Production Executive)  
Supplies industrial materials, maintains mines and petroleum depots, controls concentration of production plan and limitation of supplies orders.

V. Production Executive's Regional Boards (responsible to IV. (a), (b), (c), (d), (e), and (f) above)

Composed of representatives of Admiralty, Board of Trade, Ministry of Aircraft Production, Ministry of Labor, Emergency Repair Service of the Ministry of Works and Buildings, Regional Transport Commissioner, Raw Materials Dept. of the Ministry of Supply, and Chairman of Machine Tool Area Committee.

One of the foremost changes in Cabinet responsibility was the concentration of production in three departments, the Ministry of Supply for the Army, the Ministry of Aircraft Production for the Royal Air Force, and the Admiralty for the Navy. In July 1941, in spite of requests from various quarters, Mr. Churchill refused to appoint a Minister of Production.<sup>4</sup> He declared that the creation of this office, which he viewed as purely nominal, would cause delay and undermine Ministerial responsibility. The demand for this Minister, however, continued unabated until February 1942 when Mr. Churchill yielded to public opinion by appointing Lord Beaverbrook to head such a Ministry. The new Minister was to assume the tasks previously assigned to the Production Executive, namely, the allocation of resources, productive activity and raw materials, the design of methods to cover the importation of materials, and the supervision and guidance of the departments concerned. Shortly after his appointment Lord Beaverbrook was named British representative in the United States to aid in the pooling of resources of the United Nations.

In March 1942 Captain Oliver Lyttleton assumed control of the Ministry of State in Charge of Production. He took over full responsibility for the whole process of production in all of its aspects with the same general supervision over production departments as the Prime Minister possessed, in his capacity of Minister of Defense, over the armed forces. He was to plan the development of domestic resources, arrange an import program, accumulate stocks, and determine the scope and extent of the building program. In his various activities, Captain Lyttleton was to work in close collaboration with the Minister of Labor. Both Ministers were members of the War Cabinet. Shortly after his

appointment the Minister of Production stated in the House of Commons:

The reason why I think the powers which have been conferred upon me are adequate to the task is because they involve actual control of the three ingredients of war production. These three ingredients are raw materials, machine tools and, in cooperation with the Ministry of Labor, the labor to use the tools and work up the raw materials. . . . I would, with great earnestness, ask the House to believe that these arrangements are not the result of a compromise, and I believe that they are far more practicable and definite than any arrangements which might look tidier on paper.

His three tasks, as they appear today, are the development of a domestic production program which has balance and efficiency, the integration of Britain with the programs and needs of the other United Nations, especially the United States, and the guarantee of a "complete fusion between military plans and thought and production plans and thought."

To accomplish the first task the new Minister divided his staff into four main Divisions, the first, Programs and Planning Division under Sir Walter Layton; the second, Production Division to be concerned with the actual production of arms; the third, Raw Material Division to handle general policy, imports and allocations; the fourth, Regional Division to expand the existing capacity clearing centers and to organize all small firms, totaling about 26,000, into groups attached to local organizations "to exercise general supervision of the allocation of orders to firms so as to avoid overloading, wastage of capacity and matters of that nature."

The arrangements for the integration of the British and American programs of production are still in an embryonic stage but it is apparent that someone, perhaps of Ministerial rank, will be sent to the latter country "to preside over various British bodies and to secure with the American Allies all the measures necessary." To accomplish this last task, Captain Lyttleton has set up a body with the formal title of Joint War Production Staff. This staff is designed to operate as a parallel to the Chiefs of Staff Committee on the military side. It consists, in addition to the Minister of Production, of his Chief Advisor on Programs and Planning, of

the three Assistant Chiefs of Staff of the fighting services, and of the highest technical officers of the three production Ministries. It is assisted by a Joint War Production Planning Group whose members are drawn from the same sources as the Staff and who work together in a single office. American production has been concentrated upon the manufacture of ships, bombers and tanks, and British upon air fighters and tanks.

Captain Lyttleton's discussion of the current problems of British production has been welcomed by the House of Commons and by the American War Production Board as was his declaration that all British resources were to be utilized in the most efficient manner, and that managerial skills would be recruited and devoted to the war effort. He stated his desire to avoid undertaking any administrative responsibility and financial accountability for actual production but indicated that his powers covered "what goes in at one end and . . . for allocating what comes out at the other end." The special productive powers of the Admiralty, at the present time, have been limited to the allocation of shipyard capacity with the Minister of Production's responsibilities covering the division of materials, machine tools, labor and general engineering capacity for the Admiralty and other Government Departments. The future should prove whether responsibility for policy can be effectively divorced from responsibility for execution of policy—a plan now followed by the Minister of Production.

#### RATIONING AND SETTING OF PRIORITIES

Shortly after the inception of war, a plan was devised by which private investment in raw materials was held at a minimum by Government authorities who possessed the power to refuse licenses for their use to any person not possessing the authority of a contract reference from a department. A less indirect method of rationing attacked the problem of private consumption through limitation of total supplies available on the market.

Priority and Raw Material Departments were organized and made part of the Ministry of Supply. Except for food, which was rationed by the Ministry of Food, and coal and oil, which were controlled by the Board of Trade, the Raw Material Department became responsible for the control of all raw materials. It ascer-

tained that available supplies were used to the best advantage; that when supplies were not replenished by the normal processes other steps were taken to secure them, if necessary by purchase on Government account; that reasonable prices obtained.

Priority for iron and steel was not established until April 1940 when official and non-official buyers were segregated. Later the Cotton Controller was authorized to issue instructions requiring producers and distributors to give preference to Government contracts. Still later the Ministry of Supply secured priority for orders required for military purposes, assumed control over the total output of certain companies, examined their records and set prices in case of dispute between producers and the Government.

The increase in the demand for certain materials and the interruption of normal supplies necessitated the regulation of certain trades. These included: alcohol, molasses and solvents; cotton; flax; hemp; iron and steel; jute; leather; non-ferrous metals; paper; silk and artificial silk; sulphuric acid; industrial ammonia and other fertilizers; timber; wool; plastics and rubber; chrome ore; magnesite and wolfram. The extent and the type of control varied according to the circumstances in each trade. Generally it involved the restriction of the sale of the material concerned and the imposition of a maximum price. Where supplies were the lowest and the materials of greatest strategic value their control was the most stringent.

Infrequently the Ministry of Supply made the purchases and in these instances made them for the two purposes of buying abroad on a favorable market and of maintaining the proper price level at home. By far the greater part of the Ministry's buying was done through the agency of controllers who received instructions from the Central Priority Department of the Ministry as to preferences to be observed in meeting the demands on the materials under their direction.

A report made in August 1940 pointed to the need for an extra-departmental body to aid in the modification of the requirements of various Government Departments, for an independent department comprising priority organization and raw material controls, for a system of priority grading, for the issuance of priority directions for specific periods of time not shorter than three months,



for the establishment of full interdepartmental control in all stages from Cabinet direction to delivery in order to eliminate competition and to establish the proper national outlook.<sup>5</sup>

In May 1941 the Prime Minister indicated that the priority system then in operation was to be superseded by allocation, that materials would be apportioned at the same time as contracts were let, and that contractors would not have to apply for supplies after receiving orders.<sup>6</sup> This marked the final change in the process to allocate materials. In the first months of the Churchill Government Arthur Greenwood had served as Chairman of the Production Council and Economic Minister in charge of this allocation. In February 1941 this power was segregated in the Production and Import Executive of Ministers. The following May it became Lord Beaverbrook's responsibility in his capacity of Minister of State. Later, questions of priority were handled by the Production Executive with the Prime Minister retaining the position of final arbiter in questions or conflicts. No major hold-up in vital raw material supplies has occurred during the war chiefly because of their careful use for non-essential purposes. For example, steel supplies were devoted 93% to direct and indirect military purposes, and textiles were directed to this end to the extent that civilian consumption was reduced to one-quarter of its pre-war level with household textiles held to 10%. The efficient operation of the British priorities system contrasts with the relatively ineffectual distribution of American strategic materials. In the latter country major production hold-ups occurred early in the war, in spite of the fact that the United States possessed large supplies of vital materials, because of the unsatisfactory position of the system of priorities and allocations and because of the conflicting demands of military and civilian authorities.

#### MINISTRY OF SUPPLY ACTIVITIES

When the Ministry of Supply was set up on August 1, 1939 its functions were stated to include the responsibility, with some minor exceptions, for acquiring the entire supplies for the Army, for assuming control over items in demand by more than one Government Department which the War Office was supplying to other Departments, and for acquiring and maintaining reserves

of essential materials and metals required for the defense program.<sup>7</sup>

It was discovered that since other Government Departments would not cooperate with the Ministry after its creation, its activities became concentrated solely on the Army. The Prime Minister met this problem by creating a separate Ministry of Aircraft Production to supply the Royal Air Force. At the present time the Ministry of Supply, in collaboration with the Admiralty and the Air Ministry, exercises duties relative to the supply of munitions and other stores, including small arms, small arms ammunition and explosives. It furnishes articles used by more than one Department, such as clothing and machine tools, and it maintains a section devoted to design, inspection, research and experimentation in connection with munitions of war required by the War Council. In addition it operates or controls Government factories devoted to all materials under its supervision. The Admiralty has continued to control the design, construction and armament of all naval vessels subject only to the approval of the Minister of Defense and the War Cabinet.

In the administration of its supply functions, the Ministry of Supply is notified of the requirements of the War Office or Government Department either by means of a demand for a specified quantity of a particular article or by a statement that equipment of a certain approved standard is required for an army of stated size by a stated date. Four departments are devoted to production, each under a director-general and consisting of: munitions manufacture, including guns, machine guns, small arms, shells, cartridge cases, fuses and supplies; tank and mechanized equipment production; explosives and chemical supplies manufacture; equipment and stores production. Each department is sub-divided into a number of directorates responsible for surveying and controlling the productive capacity of the nation relative to the articles under control.

The country has been divided into twelve areas, each with a Regional Committee, and District Committees have been set up for each area, each with a Capacity Clearing Center attached to it. The Regional Committees, composed of representatives of employers and workers, of area officers, of the Ministries of Supply,

Aircraft Production, Labor and Transport, of the Admiralty and of the Board of Trade, are responsible for investigating the capacity of existing plants, maintaining records in anticipation of future production requirements, and investigating offers of plant capacity. In September 1941 the regional representatives of the Ministry were titled Regional Controllers under a policy aimed at its decentralization.<sup>8</sup> Each of the controllers now serves in an advisory capacity and stimulates cooperation between producers in his area.

When the Ministry receives a statement of requirements its appropriate department becomes responsible for determining how existing productive capacity can be allotted to meet requirements. It may allocate the order to existing royal ordnance factories or decree the construction of new plants. Methods of increasing productive capacity have resulted in using new sources of supply in Britain or abroad, in offering capital assistance to existing plants to enable them to be expanded, or in building new royal ordnance factories.

Except for royal ordnance factories and navy shipyards, all industries producing war materials are conducted by private manufacturers or contractors who operate under Government control. As early as 1937 companies which wished to expand their facilities for war production were encouraged to do so by assistance in raising capital, by extra allowances for depreciation of machinery in computing costs of production and income tax rebates, and by guarantees. The greatest expansion of plants, however, has occurred through Government financing of new facilities which are owned by the Government but which are operated by private contractors. In some cases it has advanced the fixed capital required for construction of the plant and paid a reasonable profit for goods supplied, the contractor supplying the working capital and receiving a reasonable profit for his efforts. In others all outlays have been met by the Government with the contractor receiving fees for plant construction and management, based on a percentage of cost and output, respectively.

The various kinds of contracts for war goods were constantly examined by the Government to achieve maximum economy and productivity. The Fourth Report of the Select Committee of Na-

tional Expenditure, published in January 1941, considered economy in the following manner:

The effort to maintain or restore some incentive to cheap production . . . has been disparaged on the ground that output is more important than price, and that attempts to effect paltry economies may seriously disturb the productive organization. The answer to this lies in the relation between costs and efficiency, which experience shows to be so close that maximum output is unlikely to be attained under conditions in which costs are to any considerable extent above the minimum . . . Maximum output is essential; but if it is to be achieved, the expenditure of national resources, whether in manpower, materials or capital equipment must be at a minimum for each unit of output; and one indispensable method of bringing this about is to pay the closest attention to sound methods of contract procedure.

An attempt was made to secure contracts of the fixed price type but in the early part of the war there were many instances in which this kind of contract could not be utilized. Urgent repair work, to ships and other equipment, the manufacture of new kinds of goods on a wide scale, and the need to permit sudden changes in production made it advisable and cheaper to do costing in progress, or after completion. The following types of deferred or adjusted price contracts were used: cost plus a percentage; cost plus a fixed profit (or management fee); "cost plus" subject to maximum price; "target cost", with a limit of excess over target, and sharing any savings below the target between the Government and the contractors. These four methods have been abandoned as none offered any real incentive to efficient, cheap production, and all possessed the difficulties applying to any attempt to determine actual and proper costs for specific jobs. In checking costs claimed the problem was raised of reconciling the variety of costing systems maintained by different companies. Overhead costs proved difficult to allocate and certain wage payments indicated that labor was not used with economy.

Sir Kingsley Wood stated in the House of Commons in October 1941:

I am glad to say that with increasing experience and the decline in the proportion of new types of products required, an increasing proportion of contracts is being let on fixed prices . . . The House will be glad to be assured that all Departments are fully alive to the objections to the other types of contract; that their use is diminishing, and that the fears that there exists here a large area of avoidable extravagance are not justified by the facts.

However, fixed price contracts are no guarantee of economy although, under peacetime conditions, they offer a decided incentive to economy. In wartime, however, competition is not effective and a constant check on costs of production has had to be maintained by firms invited to bid on special work and in open competition. Technical costing is common for certain kinds of work but where this would consume too much time spot checks by Government accountants are recommended. Post-costing, even though it is unsatisfactory as the basis for making payment for work done, has been used to obtain figures for Government statisticians. The accounts of all companies engaged on essential work are, under Defense Regulations, open for inspection by the Government, and costing systems have been simplified and coordinated so that, today, they supply valuable data for studies on comparative costs.

Sub-contractors have been financed by the Government under similar arrangements. In the early part of the war, because production costs had not been established, the Government paid for goods on a cost-plus-percentage or a cost-plus-fixed-profit basis. This practice has been replaced, in the main, by a fixed-price-contract system. After contracts have been placed the production department, by means of its progress officers in the area, maintains contact with contractors to ensure the maintenance of schedules and to eliminate any difficulties that may occur. Payment of all contractors' accounts is made by the Ministry after investigation into cost methods.

The Ministry recently was assigned the task of directing the work of British representatives at home and in the United States in the utilization of joint resources of munitions and raw materials. In addition, it has organized the general planning for the

production of munitions, raw materials and machine tools throughout the Empire in collaboration with the Dominions and Colonies. The Ministry, also, has supervised civil and military salvage and has secured sufficient metal to build 1,000 destroyers, 10,000 tanks and 10,000 anti-aircraft guns. It has collected 200,000 tons of railing, sufficient to manufacture 12,500 medium tanks. House to house collections, buildings destroyed by air raids and other sources have furnished 1,000,000 tons of metal scrap, enough to build many armaments. Kitchen garbage, meat bones, scrap iron and waste paper, all used in the manufacture of war materials, from November 1939-February 1942 added £5,409,912 to the Treasury. The Ministry has stressed the conservation of all materials used by the average household, indicating that an old fire grate plus an old coal scuttle will produce a Bren gun. Its activities have been reinforced by those of Local Authorities, merchants and manufacturers. Not a single item that can be used for civilian or military purposes is wasted under the Ministry's plan to acquire and convert materials for salvage.

#### MINISTRY OF AIRCRAFT PRODUCTION

The Ministry of Aircraft Production set up a Regional Emergency Services Office in each region of the country to investigate production and capacity, labor, emergency services, dispersal of factories, air-raid precautions and fire prevention. The representatives in charge of these offices locate capacity for all firms working for the Ministry and they are used as the nucleus for enlarged production in the various regions as well as for the removal of all hindrances to increased output.

In conjunction with these representatives 120 associated Reconstructional Panels consider all cases of damage to the Admiralty, Ministry of Supply and Ministry of Aircraft Production factories. The panels, composed of industrialists and engineers, serve on a voluntary basis and have the power to arrange for all repairs without authorization. The regional representatives of the Ministry of Aircraft Production have the same status as the regional representatives of the Admiralty with whom they work in close collaboration in order to obtain the maximum use of plant capacity.

## ORGANIZATION OF THE PRODUCTION EXECUTIVE

In January 1941 the Prime Minister announced the formation of a group, called the Production Executive, headed by the Minister of Labor, and consisting of the Ministers of Aircraft Production and Food, the President of the Board of Trade, and the First Lord of the Admiralty, together with members of various economic departments who served in an advisory capacity.<sup>9</sup>

The Executive's control included raw materials, factories and labor, and its objectives were the abolishment of all unnecessary national activities, the attainment of smooth cooperation between various industrial branches, and the utilization of workers to the best advantage. The grouping of the work of the Production Executive and the Import Executive, which was then created, was assumed by a committee under the Chairmanship of the Executives, the Lord Privy Seal, and the Home Secretary. This committee offered advice to the War Cabinet on the movement of business in the Executives, on special questions and on general issues of economic policy. It replaced the ineffective Production Council which had been created for the same purposes.

In July a Central Advisory Committee to the Executive was organized. It was composed of twelve representatives of employers, nominated by the British Employers' Confederation and the Federation of British Industries, and twelve of workers, chosen by the General Council of the Trade Union Congress, "to advise the Production Executive on general production difficulties (excluding questions relating to wages and conditions in individual industries normally subject to joint registration) and on such other matters relating to production as may arise from the proceedings of regional bodies or be referred to the Committee by the Executive."<sup>10</sup>

Specifically the Committee's functions included: maintenance of the Executive's register of capacity for regions of importance; suggestion of remedial action for companies possessing too many contracts; arrangement for interchange of tools; advice to the National Controller of Factory and Storage Accommodations; cooperation with the Emergency Repairs Department of the Ministry of Works and Buildings; maintenance of liaison with

the emergency service organization through the Ministry of Aircraft Production; assistance to the Board of Trade's representatives relative to concentration of industry; discovery of raw material difficulties; explanation of production problems that may give rise to labor discontent; cooperation with the Ministry of Labor on difficulties of labor supply and training, and in application of the Essential Works Order.

Regional Boards were set up, also, to serve in an advisory capacity, except in cases in which powers to act had been given to them. They were not concerned with disciplinary measures over employers and workers, and their main function was to promote the best use of industrial capacity in their areas. Each Board was composed of three representatives of employers and of workers, a Chairman, Vice-Chairman, and local representatives of the Admiralty, Board of Trade, Ministers of Aircraft Production, Labor, Supply, Works and Buildings, and of the Regional Transport Commissioner, the Raw Materials Department of the Ministry of Supply, and the Chairman of the Machine Tool Area Committee.<sup>11</sup> These Boards were set up to continue the process of decentralization in the placing of orders, to supervise contracts, to secure effective production in the various districts, and to utilize machine tools. The American War Production Board, from January 1942 supplanting the Supply Priorities and Allocations Board, has established thirteen regional offices, attached to its Division of Industry Operations, in various large cities throughout the country, following the British pattern of regional divisions and allocations of productive resources.

The major changes in the war have forced the Government to extend and deepen its control of war production and to make important changes in the productive pattern. An outline of these changes, from the inception of war to September 1942, follows:

1. Production originally was directed by a Production Executive under the War Cabinet, including the Minister of Labor as Chairman, and the Minister of Supply, the Minister of Aircraft Production, the First Lord of the Admiralty, the President of the Board of Trade, and the Minister of Works. Four main Committees were maintained under the Production Executive as follows:



- a. Central Joint Advisory Committee—consisting of twelve representatives of employers' organizations and twelve representatives of the trade unions, advising the Executive on all general questions concerning industry and labor.
  - b. Industrial Capacity Committee.
  - c. Manpower Committee.
  - d. Works and Buildings Committee.
2. Decentralization of production problems was achieved through the operation of eleven Regional Boards which had grown out of the Area Boards of the Industrial Capacity Committee of the Ministry of Supply but which had been provided with much wider scope. Each Board, as reconstituted in July 1941, was made up as follows:
- a. Three representatives of employers and three of trade unions, the Chairman and Vice-Chairman being chosen from these groups.
  - b. Representatives of the Admiralty, the Board of Trade, the Ministries of Supply, Labor, Aircraft Production, War Transport, and Works and Buildings; and the Chairman of the Machine Tool Area Committee.
3. The Boards were provided with responsibility for dealing with local questions of raw materials, transport of workers and goods, concentration of industry, factory accommodation, exchange of machine tool capacity, the overloading of individual firms and the expansion of production. Each Board operated through:
- a. An Executive Committee consisting of representatives of the Government Departments, with a Chairman and Vice-Chairman, one an employer, the other a worker.
  - b. Capacity Clearing Centers dealing with areas smaller than the regions. The work of each Center was broken down still more by means of District Advisory Committees, composed of technical officers of the Government Departments, with representatives of employers and workers. These Committees dealt directly with the Production Committees in individual plants.
4. Recent changes have included the following:
- a. The replacement of the former Central Joint Advisory Committee of the Production Executive by a more active National Production Advisory Committee composed of 11 representatives of the Regional Boards, 6 employers and 6 trade unionists. Decentralization was stimulated by ap-

pointing full-time controllers as Chairmen of the Regional Boards and endowing them with wide powers.

- b. The industries producing war goods were expanded. Ownership of war production plants was divided into three main groups:

(1) Royal ordnance factories, built, owned and operated by the Government.

(2) Government-owned, privately operated plants, used on one of two bases:

(a) Modified commercial basis with the Government advancing fixed capital necessary for construction of the factory and contractor supplying the working capital and receiving a reasonable profit.

(b) Agency basis with all outlays met by the Government, the contractor receiving fees for construction and management based on a percentage of cost and output, respectively.

(3) Privately-owned plants encouraged to expand by the Government by one of following methods:

(a) Permitting certain essential firms (a small number) to raise money in the capital market.

(b) Indicating to the nation's banks that they should facilitate credit to essential undertakings.

(c) Granting certain increased allowances for amortization of plant and natural resources in the computing of costs of production and tax rebates, and by furnishing guarantees with reference to the Government purchase of products, now and in the future.

British experience has indicated that the manufacture of munitions is much more complex than that of consumers' goods. It has taken four years for aircraft production to rise, and a still longer period for improvement to be evident in Army ordnance. The coordinating and unifying force, so essential to increased war production and to the elimination of waste effort, was supplied by the Production Executive and by the Regional Boards, and their effectiveness has been enhanced by the decentralizing process carried out recently.

## IMPROVEMENT IN PRODUCTION

Various American missions have been sent to Britain for the purpose of studying the production of steel and other vital war products, and for considering the balance of the British production program. The shadow plant scheme, also, was subjected to study. Under it motor-car manufacturers assumed the management of airplane plants which were built and equipped at Government expense and concentrated upon the manufacture of planes according to designs furnished by the aircraft industry. Shadow plants, in addition, were set up to produce airplane engines and accessories, with the aim of supplementing regular suppliers.

In the six months ending March 1941 the output of fighter planes was more than doubled, and that of large bombers was greatly increased. The output of machine tools has reached a level six times that of normal peacetime. After nearly two years of war the production of war stores equalled outputs in the last quarter of the World War. To a large extent this record was accomplished by new industrial recruits, including women.

By July 1941 a third more workers were engaged in the war industries than in the previous year and the Minister of Labor declared that in 1942 the number of workers employed on munitions production will be double the total at December 1940. Factories have been installed in the least accessible parts of the nation with aircraft plants spread over many sub-centers. The construction of underground plants to manufacture airplane parts had been completed, in a number of cases, by February 1942. One factory of this nature was built in an unused quarry, its total area covered several square miles, and its underground galleries were about three-quarters of a mile long and covered the same breadth. Quarters for single men and women were built near the plant as well as six hostels, each accommodating 1,000 persons. At all factories below ground 61% of the workers are women and they take an equal share of the night shifts with men. Every department is linked by telephone and periodical progress reports are rendered on its work, difficulties and requirements of material. Workshops underground are illuminated by fluorescent lighting,

the latest methods of ventilation are used, and elevators afford access to various sections of the plant. Each shaft is protected against bombing and the whole underground plant can be sealed off in case of a gas attack. The construction of underground factories has proceeded rapidly to offset the statement that German bombing last year slowed down production and caused illness of employees.

Outputs have been increased, also, through a large-scale conversion of plants to war purposes. For example, torpedoes now are made in a former boot and shoe plant; anti-gas and medicated ointments in a former beauty cream factory; airplane engine parts in a hairpin plant; and airplane frames in a toy factory. For the period from July-September 1941 alone war production increased four times over that of the previous year, and in January 1942 twice as many complicated guns were produced per month than at the peak period of 1917-1918.

Reference should be made to the contribution of small firms to the war effort, and to the Governmental endeavor in Britain, as well as in the United States, to introduce these firms in essential production. It is interesting to note that, at the inception of war, more than one-half of the productive capacity of Britain was in units employing less than 250 workers. Even if the utilization of these firms meant an increase in immediate costs, it proved cheaper to pay for more supplies produced by them immediately than to wait indefinitely for the output of new, larger plants.<sup>12</sup> The Ministry of Supply encouraged sub-contracting, and small firms were found useful in special jobs involving craftsmanship and in experimenting with new processes. In certain areas they possessed the advantage of being able to draw on immobile labor, such as women.

In some cases small firms were used in a "parent firm" scheme under which a contract requiring the services of more than one firm was placed with the largest of the group. This firm acted as the representative, not as the agent, of the other firms named in the contract. Under this plan, upon their own initiative, companies could offer their combined services directly to a Government Department and no provision was made for the payment of profit to the parent firm on the work of the other firms.

Another plan was the "embodiment loan" scheme under which the Air Ministry purchased many aircraft parts and accessories directly from manufacturers and supplied them to aircraft contractors for assembly. The scheme was operated at various stages of production, and contracts between the Ministry and engineering firms considered that certain parts were a free issue and only the service of assembling them was required. The increased use of these two plans has been apparent in recent months.<sup>13</sup>

The financial resources of small companies were improved by the assumption, by banks, of the financing of work in progress through immediate advances to manufacturers engaged on Government contracts. Government Departments issued frequent progress payments, also, as work was completed. To aid in the use of plant capacity of small firms the Clearing Centers, already referred to, have proved especially effective.<sup>14</sup> While in some instances, notably the manufacture of shells, a company which did not employ at least 300 workers could not be operated economically, it was recognized that firms, which individually were of small importance, in the aggregate could produce quantities of vital materials. Every firm, therefore, both large and small, which could be used, has been brought within the scope of Government orders.

During March 1942 Joint Advisory Production Committees began operation in all royal ordnance plants under an agreement signed by the Parliamentary Secretary to the Ministry of Supply, on behalf of the Government, and by representatives of managements and unions concerned on behalf of the producers. The object of the Committees was to secure "the regular exchange of views between managements and workers on matters relating to the improvement of production, to increase efficiency for this purpose, and to make recommendations thereon." Among the questions discussed were the following: the maximum utilization of existing machinery; the methods of upkeep of fixtures, jigs, tools and gauges; the improvement of methods of production; the efficient use of the maximum number of production hours; the elimination of defective work and waste; and the most efficient utilization of material supplies and of safety precautions.

These Committees, later introduced in America, were com-

posed of ten members each from labor and management; the Superintendent of the factory presided ex-officio. They represented an adaptation of the Whitley Councils and Works Committees and shop stewards which had operated in the last war and which had continued in some industries during the inter-war years. They met every two weeks, and all male and female employees of the factory were entitled to vote for representatives who were chosen from workers who had served at least one year in the plant. The ballot was conducted by the trade unions. The new arrangement was expected to eliminate difficulties arising even in the best run plants as it was stated that "the workers know most often why machines are not running and why there are holdups and bottlenecks; now they are given an opportunity to bring their views to the direct attention of management." Later Committees were established in aircraft production factories and in the engineering (mechanist) industry.

Through the operation of these Committees improvements in processes in factories have been secured as well as the development of personal initiative on the part of workers. Goodwill on the part of management and labor, secured through discussions of vexing problems, has tended to eliminate misunderstandings which often resulted in decreased effort and output. Although Committees serve in an advisory capacity only they have promoted greater understanding between management and workers and greater appreciation of the role of each party in the war effort. At a meeting of one Committee the following topics were discussed and a program outlined for their solution: poor food and service in the plant canteen; chronic absenteeism in the factory; protection of workers from occupational hazards; need for additional machine tools and materials in a certain section of the plant; and methods of stimulating production throughout the factory. The success of the Committees is indicated in their reduction of labor difficulties. During 1942, with the introduction of additional Joint Advisory Production Committees in additional areas of production, it is hoped that labor stoppages may be curtailed. Today the shop stewards, who serve as representatives of the unions in the shops, the Committees, the workers and the

managements of war factories are all concentrated upon one objective—the increased production of armaments.

The Ministry of Labor in May 1942 standardized the minimum 52 hour week for industrial work and one of 46 hours for clerical work, establishing a maximum of two weeks' holiday each year. This plan, to be followed for the duration of the war, leveled up industries still operating on a peacetime basis. In the consideration of labor requirements in the future the Ministry will ascertain whether these standard hours are maintained and whether a reduction of staff could be secured by increasing the hours of work.

When it is remembered that the total population of Great Britain numbers less than one-third that of the United States, less than one-half that of German-speaking nations, and one-fourth that of Russia her industrial output achieved during this war has been remarkable. Considering the difference in population between Britain and the United States, in the first quarter of 1942 Britain produced  $2\frac{1}{4}$  times the total amount of Army munitions and about twice as many combat planes as the United States; in the second quarter the former country produced  $1\frac{1}{2}$  times as many munitions and about twice as many combat planes as the latter. Of 100 employed Britons, about 55 by September, 1942 were working for the Government, either in the forces or factories, or in other branches of Government service, and nearly all the remainder were employed in essential work. Britain has replenished her weapons lost at Dunkirk, and manufacturing outputs have been attained out of a reserve of 23,000,000 able-bodied men and women which was expected to supply fighters at home and abroad, workers and organizers. Because this reserve was so small it has been used with great care by the dilution of skilled labor, by the centralization of industries, by the substitution of woman for man power, and all changes have been accomplished with the minimum amount of friction and the maximum amount of industrial strategy. More complicated armaments were made, than in the last war, and these had wider ranges and more destructive propensities. For example, the most powerful bombers in the world were turned out by March 1942.

Although production figures are considered confidential in-

formation the following extracts from speeches of Government leaders give some indication of the increase in output:

### *General*

Prime Minister Churchill, July 29, 1941: "We have lost large stocks of equipment on the beaches of Dunkirk, our food has been rationed, we have been bombed and blacked out, and yet even in this seventh quarter of the war our total output of warlike stores has been nearly twice as great as our total output of production in the corresponding seventh quarter of the last war, and has equalled our production in the fourteenth and culminating quarter of the last war. . . . We have reached in two years the level only achieved in the fourth year of the last war."

### *Tanks*

Lord Beaverbrook, August 1941, stated that heavy tank production was double that of March 1941. The last week of September showed an increase of nearly 20% over the previous week's output. More tanks were made in July, August and September 1941 than during the entire year of 1940. In November, 1941 he stated: "October has been a banner month; four times the output of October last year." On December 1, 1941 he said that the last week of November 1941 was a record of tank production for Britain, but the peak in production would not be reached until July 1942. "We want from all sources from July 1942 to July 1943, 30,000 tanks. That will include the quota we get from America, what we can produce in Canada, and a wide, wise plan of production we must lay down here." On February 12, 1942 he said: "In 1941 Britain sent abroad to all theatres, including Russia, 3,000 tanks receiving none from abroad." On March 18, 1942 Lord Halifax stated: "We are turning out three times as many tanks as in February 1941, and five times as many as in July and August 1940." He indicated, also, that 80% of *all* British military production, for months past, had been sent overseas.

### *Guns*

Lord Beaverbrook stated on January 28, 1941: "We are turning out guns at the rate of 30,000 a year. By the end of 1942 it is estimated that this will reach 40,000. I predict a rate of 45,000 guns, and let me tell you that 30,000 guns exceeds the total of guns produced in Britain in the whole of last year. I now declare that the outputs of filled shells and of armor-piercing shot have kept in step with the production of guns."



On February 12, 1942 he declared: "A new, very powerful tank or anti-tank gun, better than the German 4.2, has been developed and put into large-scale production. Production of these guns is going forward at the rate of 30,000 annually in December 1941, and 35,000 in January 1942."

### *Aircraft*

The Prime Minister declared on July 29, 1941: "In the year that has passed, in British production alone, we have doubled our power of bomb discharge on Germany at 1,500 miles range. In the next three months, though this time taking account of American reinforcements, we shall double it again. In the next six months after that we shall re-double it."

On February 12, 1942 Lord Beaverbrook said: "In 1941 Britain sent abroad (to all theatres, including Russia) 9,781 planes, while receiving 2,134 from the U.S.A."

### *Shipping*

Between March 1940 and March 1941 480 ships had come or shortly were coming into operation for the Navy. By February 1941 the British naval building program was higher than at any time in the last war. Since May 1940, merchant shipbuilding output had increased by 50%. In one week, in March 1941, ships totaling more than 1,100,000 tons were returned to service after repair in British shipyards.

Mr. Churchill stated on July 29, 1941: "The combined merchant and naval shipbuilding now in active progress is bigger not only in scale, but in current daily volume of execution, than it was in any period in the last war, and of course the work is now immeasurably more complex than it was then." On November 12, 1941 he said: "Making allowance for new building, the net loss of our mercantile marine, through enemy action, apart altogether from captures from the enemy and United States assistance, has been reduced in the last four months to a good deal less than one-fifth of what it was in the previous four months. This has been achieved in a great measure through our growing success against the U-boat and long-range aircraft; but *new* shipbuilding plays its part."

### *Machine Tools, Helmets, Etc.*

In June 1941 it was stated that the output of the machine tools industry was six times that of normal peace-time levels. Over 17,000,000 steel helmets of standard types have been produced, and 2,700,000

new helmets for fire watchers. By the end of December 1940 orders were placed for early production of 9,000 miles of serge for battle dress, the same amount of lining, 200,000,000 brass buttons, and 1½ million great coats. It was stated that these contracts represent only 6% of Britain's output of woollens.

On February 12, 1942 Lord Beaverbrook said: "The original plan to produce 400,000 tons of synthetic rubber annually in the U.S.A. has been boosted up to 600,000, of which Britain will get 50,000 tons."

Lord Beaverbrook indicated in his address to the American Newspaper Publishers Association, on April 23, 1942, that the task of equipping the British Army was far greater than anything contemplated when war began, that each division now carries a thousand tons of ammunition and consumes two tons of petrol for every mile it travels, that a single anti-aircraft battery requires three tons of ammunition in one minute's action, that five tons of shipping are needed to keep one soldier overseas. And he titled 1940 the year in which aircraft was needed; 1941 in which tanks were needed; and 1942 in which ships were in demand, and promised that, during 1942, Britain would double her output of ships. However, he emphasized that, in the end, the requirement would be for raw materials and that new sources of supply would have to be developed, including those of a synthetic nature. For every demand for munitions British factories have supplied the materials but recourse must be made to the United States to furnish synthetic supplies of vital materials and to bolster up deficiencies in the armaments of the United Nations.

In 1941 Britain sent to battlefields abroad 9,781 planes, more than 4 times the number she imported; and 3,000 tanks, 15 times the number imported. The production of planes has doubled in the last year; 87% of all R.A.F. planes now are operated from home bases and 75% from British-made foreign bases. The Spitfire, which is constantly improved in design, has a superior record, and the Bristol Beaufighter has no equal in its combination of speed, range and fighting power.

British production, by August 1942, equalled that of Germany and is of acknowledged quality not only in Britain but through-

out the world. The Minister of Aircraft Production, speaking in the House of Commons in July, drew attention to the necessity for increased production. He stated: "We have now reached the point in the mobilization of our people where we cannot look for increased production by building new plants. We cannot afford the raw materials or labor. We cannot increase production by cutting down civilian consumption. Already great hardships and sacrifices have been imposed on the people who have gladly accepted them. But we can out of our existing resources of machines improve production by better planning and better design and by greater openness of mind."

Numerous improvements have been realized in the output of armaments. For example, the weight of aircraft produced in June 1942 showed an increase of 150% over January 1941, war stores trebled in the same period, and the volume of armored fighting vehicles quadrupled. The Minister of Supply, in July 1942, stressed the fact that Britain was "suffering from inherent weaknesses arising from the lack, for so many years before the war, of fundamental research, development, experiment and production of tanks. On the average the output per person working for the Ministry throughout the whole range of engineering and allied industries is at least one-third greater than the output per person at the beginning of 1941." In August 1942 this Minister stated that royal ordnance plants were producing  $4\frac{1}{2}$  times as many guns as they did in the past twelve months.

At the present time there are 42 royal ordnance factories of which 24 are engaged in engineering, 8 in the manufacture of explosives, and 10 in filling. These factories employ 300,000 persons of which 60% are women. They are responsible for  $66\frac{2}{3}\%$  of the total gun output while in 1941 the percentage was 50. One factory alone produces 75% of the total number of guns, on a monthly basis, that were manufactured in the whole of Britain when production was at its peak in the last war. In addition, 60% of the total explosive output is produced in these plants and the workers' rate of output has increased 40% over 1941. The introduction of the three-shift system has offered relief from absenteeism. In 30 out of the 42 plants the hours worked are 60 or less per week for men and 55 or less per week for women. Reduc-

tion to these standards was to be achieved in the remaining 12 factories within the next 3 months.

Scientific research, initiated during the war, has provided Britain with many powerful war weapons including the radio-locator, a method of detecting approaching aircraft. British experience in designing and using war weapons has been utilized by the United States and the other United Nations and has proved of immense value. By the Autumn of 1942 Britain had reached a point where she could not increase outputs by any additional large drafts of workers into war industries or by building new plants on a large scale. Maximum production could be obtained, according to Captain Lyttleton, only by making greater use of machines and labor forces at Britain's disposal. In the future, he stated, instead of "continuing to pour more people into the same congested towns, with the attendant problems of housing and billeting and the strain on local transport, we propose to select activities which can be transplanted from congested areas to districts where immobile labor is still available." At the present time there are many highly tooled, efficient plants which cannot, because of the lack of labor, maintain their tools on the night shift to the degree considered desirable, and there are many firms using primitive machine tools at high cost in skilled labor—both problems to be attacked by the local amalgamation and grouping of affiliation schemes. It is essential that the latest weapons be produced quickly, even in limited quantities, rather than to produce the bulk of the same weapons sometime in the future, an objective that will mean a re-gearing of production to a faster, more efficient basis with its concentration upon present, rather than future, results.

#### LAG IN PRODUCTION

The aerial offensive of Germany against Britain reduced the productive efficiency of British workers, destroyed factories, and resulted in the dispersal of plants throughout the country. Considering the last factor only, the Government has distributed the huge production of armaments to the extent that parts for tanks are now made in 6,000 small shops and then assembled.

Disrupting as this aerial offensive has been, however, it has not

been the underlying reason for the insufficient attention which has been devoted to output per worker and to good management in war plants during the first two years of the conflict. The need for greater confidence of managements in workers, and of workers in managements, has been stressed in various reports, most recently by the Engineering Industries Association. This report indicated there has been a lack of the *esprit de corps* so vital to satisfactory industrial relations and to increased output. This deficiency, in most cases, was caused by unsympathetic managements, and has been remedied by the Production Committees previously mentioned. Business men who served in their original commercial or industrial positions and who, in addition, served in Government Departments have come in for severe criticism.<sup>15</sup> In July 1941 wider control of production was secured by a measure which provided that directors and plant officials in vital companies could be removed if they were found to be obstructing production.

Endless complications involving materials and workers continued to plague Government officials.<sup>16</sup> Practically every source of material supply was subject to Government control and to the dictates of licensing authorities. Production was subject to Government interference and to changes in design, both of which retarded output. Some critics felt that one solution would be to decentralize large London Departments and, in certain cases, to disband them.<sup>17</sup> These Departments were accused, by the Association of British Chambers of Commerce, of lacking balance in organization, maintaining too large clerical staffs, and causing delays. It was averred, too, that the areas of the Regional Commissioners would require subdivision if productive capacity were to be utilized.

During the Summer of 1941 delegates called together by the Engineering and Allied Trades Shops Stewards' National Council met in the first all-London production conference to consider ways of increasing production and of removing inefficiencies in war plants. A five point program of solution was offered:

1. Restoration of the profit motive as a driving force in industrial effort.

2. Restoration of an earnings incentive to workers.
3. Solution of outstanding and obstinate welfare problems.
4. Consideration of inflationary dangers by direct, not monetary, methods.
5. Decentralization of economic organization and control.

While no breakdown has been occasioned in production, and great improvements in outputs have been made, a vital need for extra speed, efficiency and concentration in plants has been manifested. From the Autumn of 1941 a definite campaign was evident to lower financial controls on wartime industries to secure the desired maximum output. Some observers believed that the incentive of profits and earnings should be restored to industry, that output could not be increased without offering material inducements to producers. In substantiation of this argument the noted economist, F. W. Paish, was quoted as follows:

It would . . . be unfair and unwise to rely wholly on patriotism to offset the diminution of economic incentive, unfair because it would throw the whole burden upon the more public-spirited members of the community and unwise because even the most public-spirited are likely to find it easier to maintain a high level of output if their services receive some immediate and tangible recognition.

It was stressed, however, that managements and workers might well be supplied with efficiency premia for higher outputs than with the incentives of higher average wages.<sup>18</sup> This discussion raised the problem of whether the offering of the inducements of higher profits would be the first step in the removal of wartime financial barriers, and would mean the loss of effective financial control which had been gained during the months of war.

The excess profits tax, which from May 1940 reached 100% of all business profits in excess of the pre-war standard, has been criticized for its harsh effects upon groups of companies from which maximum war production was demanded. The disadvantage of the tax was highest in companies from which increased output was required. In April 1941 the tax was alleviated by a 20% credit repayable by the Government to companies after the war to aid them in industrial reconstruction.

The excess profits tax has raised the question as to whether it has killed the profit producing power of industry. That it has proved a deterring factor can be shown from the following data:

<i>Year</i>	<i>Number of Companies</i>	<i>Net Profits</i>	<i>*Net Profits Index</i>
1939	2,342 reporting	£267,500,000	110.8
1940	2,260 reporting	208,100,000	106.6
1941	2,041 reporting	175,600,000	94.3

\* Based on chain index 1928 = 100

Total profits fell for the year 1941 in the coal, iron and steel, motorcycle and aviation industries.<sup>19</sup> If the tax remains at its present level managements may not desire to extend the operations of their companies, they may be lax in cost accounting, and they may impede the total war effort.<sup>20</sup> This matter was not adjusted in the 1942-3 Budget. In it, however, the taxation of women workers was changed. Incomes, before its formulation, of wives and husbands were lumped together for income tax calculations and this plan necessitated the payment of a higher tax than if the two parties had been assessed singly. This change has speeded up production as it encouraged women to enter war factories, counterbalancing their claim that they could not afford to accept jobs because of the high income taxes on their earnings.

At the beginning of 1942 the services of workers still were not utilized to the best advantage throughout the nation, in some cases because of insufficient machines and materials. Unnecessary mistakes still were made in specification and design, and difficulties continued to arise in inspection departments. Efficient managements and technicians were in constant demand and could not be supplied in sufficient numbers. The Chairman of the Engineering Industries Association declared in October 1941 that war production, whether measured by factory space or pound weight of production per man-hour, had declined.<sup>21</sup> At that time company officials still viewed production in terms of money rather than of output, an opinion that has been refuted on every occasion during the war. The following March chronic delays still haunted the productive process. The control and administration of raw materials remained with the Ministry of Supply although the Ministry of Production controlled imports, domestic

manufactures, Empire developments, allocations, stocks, priorities and Allied materials.

In February 1942 a delegation of Russian trade unions visited 10 cities and 60 factories, works, mines and shipyards in Britain, held 40 meetings and talked with several hundred working men and women.<sup>22</sup> Its Chairman stated that, as a whole, British industry was working well and that there was a splendid morale of the working people evident on every hand. He directed attention, however, to the following: insufficient utilization of equipment, machine tools, lathes, etc. on hand; inadequate introduction of women into industry in spite of the decisions of the Government; incorrect attitude in some factories toward the initiative of workers and toward rationalizing proposals; unwillingness to listen to workers' opinions and to their shop stewards; limitation, in some few factories, of the level of output. He felt that the shop stewards' movement had been retarded by the fact that, in many factories, stewards were chosen for their energy and political initiative rather than for their competence as organizers of productive effort. This situation is in the process of change and the stewards are becoming more responsible and more representative.

#### THE FUTURE

The Minister of Labor, in November 1941, called for a 30-40% increase in production during 1942.<sup>23</sup> This increase, it was apparent, could be secured either through the expansion of productive facilities at the disposal of the Supply Departments and at the cost of civilian industries and occupations, or through the increase in the yield of output per man-hour. The admission on Mr. Bevin's part of the need for increased output was significant as it indicated that there had not been a complete transfer of labor, materials and productive facilities from consumers' industries to war production. It indicated that all production deemed non-essential to the war effort would have to be eliminated, that additional workers would have to be recruited and retrained, that more women would have to be introduced in industry.

The main hope, however, lies in increasing yields of finished equipment per man-hour by striving to improve productive technique and organization. As new plants come into operation dur-



ing 1942-3 outputs will be increased but it will be necessary to exercise even greater efficiency in utilizing existing resources. It will be the task of the Government to obtain managerial minds, to improve conditions in which industries operate, to aid in grouping companies into strategic manufacturing units. Industry will be called upon to improve productive methods and to promote better relations between managements and workers. All deterring elements to maximum production will have to be removed.<sup>24</sup>

The coming months should witness the additional rationalization of industries and the further standardization of their products. Every productive resource at the nation's command will have to be diverted to the war effort. Manpower, plant and equipment, materials, organization, planning and incentives will have to be combined so that increasing outputs may be secured. Bottlenecks will have to be removed from the heavy and metal-working industries; non-essential industries curtailed; over-rigid Government Departments decentralized; Regional Boards provided with executive authority; industry afforded greater responsibility for organization and for the fulfillment of Government requirements. A single strategic plan, with reference to what the fighting forces require, will have to be evolved.

In the *London Times* for March 17, 1942 Sir William Beveridge stated that the difficulties in war production were caused by the retention of the peacetime economic structure of the country and the system of economic rewards. He believed that political standards of peacetime impeded present efforts, and that the national habit of compromise and procrastination had been retained. He urged the Government to take direct responsibility for the control of vital industries and for the distribution of income, and he stressed that service rather than personal gain should be the driving force of the war effort in industry as well as in the fighting services. His remarks have received wide attention as indicating the wide divergence in thinking occurring during the progress of the war.

The War Cabinet, during 1942, will be called upon to face the complex problem of increasing production for active warfare and of eliminating all retarding factors to increased outputs. It

will be challenged to imbue every aspect of the productive process with efficiency and to discover a new spirit to drive the war machines forward to total capacity.

In March 1942 Britain was operating at near-capacity. Geoffrey Crowther, editor of the *Economist*, in that month estimated that the production of Britain and the British Dominions was between 70-80% of the German total. At its peak, in his opinion, British and American outputs may reach a figure three times that of Germany but an overwhelming superiority could not be built up, according to his estimate, until late in 1943 or early in 1944.

Great responsibility is placed upon the Minister of Production to secure the development of a production strategy which will convert latent resources for utilization by the fighting services. One problem presented to him is the proper set-up of the Area Boards of the Production Executive. It is apparent that these Boards should not remain advisory committees but should be endowed with the power to see that orders from Government Ministries are executed locally with the utmost speed and flexibility, and with the minimum amount of delay from material and labor shortages. Others include the settlement of production priorities, control of Regional Boards, and the allocation of all industrial capacity, with the exception of shipyard capacity which remains under the Admiralty. The chief criticisms which remain to be met by the Minister of Production come from small and medium-sized companies which complain that the Supply Departments do not time their orders in a manner by which all available manpower and machinery may be kept in constant use, and that the former group of companies has not been used satisfactorily in the war effort. A solution to these criticisms would be to decentralize Government Departments, to provide additional powers to Regional Boards, and to set up efficient production committees in each area of the country with the responsibility of ascertaining that no productive unit lacks orders.

The Citrine Committee reviewed the operation of the Regional Boards which, since January 1940, represented the Supply Departments and local industry in eleven civil defense regions. Although their function was to assist these Departments to secure the most complete and efficient use of productive resources and

manufacturing capacities of their regions, in practice their history was disappointing as they were unable to secure rapid and effective coordination of the efforts of officials in the production of vital materials. This state of affairs was brought about because the Boards lacked status and authority as, until the appointment of the Minister of Production, no official possessed the power to coordinate and supervise the activities of the Supply Ministers. The main recommendation of the Committee was couched in the following statement:

Just as the Ministry of Production is charged with the duty of concerting and supervising the activities of the Supplies Ministers at the center, so there should be in each area a representative of the Ministry whose duty it should be to concert and supervise the activities of the Regional Controllers of the Supply Departments.

The plan of the Committee was that of appointing Regional Directors of Production with the task of supervising the work of the Regional Controllers of the Supply Departments. This recommendation, however, was not accepted by the Government; instead Regional Controllers were appointed and it was impossible for regional facilities to be fully pooled and utilized. This criticism should not indicate that the new plan of the Government is as poor as its predecessor. However, it does not provide the Ministry of Production's representatives with additional powers over those possessed by their colleagues. By not adopting the Citrine Report the Government failed to secure an improvement in its local productive technique and strategy, and this deficiency has become more obvious with the passage of time.

The reconstituted Regional Boards began to function in July 1942 when the eleven representatives of the Ministry of Production, most of them well-known business men, took their places not as directors, as suggested by the Citrine Report, but as equals among their colleagues. Other members of the Boards included representatives of the Admiralty and the Ministries of Supply and Aircraft Production, Regional Controllers of the Ministry of Labor, the Regional Director of the Board of Trade, and three representatives of employers and three of workers in the region.

The Executive Committees include, besides the Regional Con-

trollers of the Ministry of Production as Chairmen, the representatives of the three Supply Departments and the Ministry of Labor, and two Vice-Chairmen, one representing labor and the other employers. As the representatives of the Ministry of Production possess no power to override the opinions of other members their authority depends on their personal initiative. If these men are unable to coordinate and speed local production their powers must be increased beyond those allocated to them recently by the Government.

These problems face the Minister of Production. Others he must conquer concern the removal of all deterring factors to maximum output. It is the final margin between near-capacity and total-capacity that is lacking today in Britain, although the main productive structure stands refined and rigged to accomplish this objective. The final stage can be secured through the re-dedication of all productive resources to the war effort, through the reconsideration of every factor, personal, physical and financial, which bears upon the main problem of increased output of vital materials. In this process the Government will hold an important role in establishing conditions in which management and labor operate at their greatest efficiency, in outlining the national policy so that each Governmental Department knows its position in the total scheme, in placing finance at the service of production, and in coordinating the British and American production programs. Only in this way can the race to produce armaments, in the greatest quantity and of the best quality, be won by Britain and not by her enemies.

## CHAPTER III

### CONCENTRATION OF PRODUCTION

In the gradual process by which the British Government, from September 1939 onward, has moved toward a total war economy the expansion, reorganization and central control of vital industries have been held as primary objectives.

One problem imposed by war was that of discovering a method by which every resource at the nation's command could be used most effectively. Plans to ration food and clothing, to curtail the manufacture of luxury articles, to impose high income and purchase taxes, and to encourage personal savings restricted demands for consumers' goods. The contraction of consumption meant that companies in this field, operating with the same plant and labor resources as before the war, now were on a part-time basis. In March 1941 it was realized that this wasteful practice must be stopped by the concentration of production of these companies in a reduced number of factories working at full capacity.

#### LIMITATION OF SUPPLIES ORDERS

Before this date, the only regulatory influence upon consumers' goods industries had been the Limitation of Supplies Orders which were enforced by the Board of Trade. These Orders specified that consumers' goods of a finished nature were to be supplied to retailers according to a quota of goods supplied in the standard period, April 1 to September 30, 1939. Cotton, silk, linen, piece and made-up goods were supplied in 20% of quantities of the standard period; rayon goods in 40%. The objective of the Orders had been to restrict the amount of consumers' goods which could be sold by manufacturers or wholesalers. Under them, purchasers of a formidable list of these goods were required to register and

to reduce their purchases, in terms of their value, to a specified proportion of them in the corresponding period of the preceding year.

#### CONCENTRATION PLAN

The Government originally had permitted the industries covered by Limitation of Supplies Orders to make an adjustment to the new restrictions imposed on them but the elimination of firms, because of scarcity of supplies, proved to be too prolonged and wasteful a process. Other influences already were at work to secure the curtailment of business activity as, at the inception of war, the Ministry of Supply had established control over all essential commodities, including aluminum, hemp, flax, jute, leather, silk, cotton, wool, non-ferrous metals, and controlled the allocation of these materials to manufacturers on the basis of the nature of their products with primary consideration being given to war production. In addition, the various Service Departments and the Office of Works possessed the power of requisition over industry, and the Ministry of Labor controlled labor. A program to secure the greatest possible transfer of resources to the war effort by contracting civil consumption and releasing labor, materials and factory space for vital purposes had to be introduced in the industries to which Orders applied. These industries were required to present to the Board of Trade for approval schemes to concentrate their production to the level imposed by the Orders. The principle stressed was that concentration plans should avoid the destruction of the identity of individual producers. Firms suspending production were to be afforded the privilege of reopening at the conclusion of hostilities, and they were to receive compensation from those companies which continued in operation.

Under the concentration plan emphasis was placed upon the efficiency of the operating units rather than upon their size. Consideration was given to their geographical location, vulnerability to bombing, facilities for distribution, accessibility to labor supplies, and proximity to war industries which could take over their displaced workers. The Board of Trade assumed the responsibility for indicating to industries their degree of concentra-

tion by calculating their degree of redundancy. By this procedure it ensured that concentration was secured in areas in which the demand for labor for munitions factories was heaviest.

The concentration plan was announced by Captain Oliver Lyttleton, Chairman of the Board of Trade, in the House of Commons on March 6, 1941 as the solution to the problems of securing complete employment of all productive factors and of attaining the maximum production of war and essential materials.<sup>1</sup> It was called by some observers "an industrial revolution" because its measures were so drastic and far-reaching.<sup>2</sup> No additional legislation was required to secure its enforcement as the supplies of raw material and labor already were under Government control.

#### OUTLINE OF GOVERNMENT PLAN

In the description of the concentration plan, contained in a memorandum issued by the Board of Trade, attention was directed to the fact that the industries affected by the new scheme, in general, were covered by Limitation of Supplies Orders. In certain instances, such as cotton and wool textiles, footwear and paper, they were subject to raw material control.<sup>3</sup>

Individual firms in each industry were expected to make arrangements with each other to secure the concentration of their facilities. In order to furnish assistance to the Board of Trade in its important task of advising industries in their curtailment plans the scope of the Export Council was expanded and it was renamed the Industrial and Export Council.

The Board of Trade assured companies that the goodwill of factories closed down would be preserved, and that plants would be maintained in readiness to operate at any time during or after the war at which their operation was desirable. To facilitate the latter declaration, the Board maintained records of plants closed and the Ministry of Labor of transferred workers in order that plants might be reopened and workers rehired without delay.

Approximately 100 industries were covered by the concentration plan. They included: hosiery, gloves, fancy goods, umbrellas, wool, silk, rayon, cotton, narrow fabrics, lace, bedding, cutlery, photography, sports goods, combs, jewelry, silver electro-plate,

paper, paper boxes and cartons, tiles, china clay, steel sheets, jute, re-rolled and tube sections of the steel industry, certain sections of the woodworking industry, furniture, pottery, gramophones, blown glass, office equipment, musical instruments and pianos, plastics, toys, boots and shoes, leather goods, carpets, gold and silver ware, toilet preparations, furs, linoleum and household goods. These industries were expected to arrange their own plans for pooling production and for making fair arrangements of compensation for closed plants. All schemes were to be submitted to the Board of Trade for approval. The policy of the Government was explained to representatives of employers and workers in the industries concerned but the initiative for formulation of concentration schemes remained with individual firms, not with the Government.<sup>4</sup>

#### NUCLEUS FIRMS

The Board of Trade divided all firms in industries to be concentrated into two categories, nucleus and satellite, of which the former was to be operated at full capacity and the latter closed. This could be secured by one of several methods. A company might have reached productive capacity by means of home, export and service orders but a gap now existed between output and sales because of the curtailment of consumption markets and reduced exports which could be satisfied by additional orders; a company might close some of its factories or parts of factories and reach full productive output in other plants; cooperation could be secured between a number of separate firms through pooling of quotas, machinery or labor, or by an agreement of one unit to turn out quotas of other units at cost. This last method received the greatest approval of the Board as it achieved immediate concentration with least possible injury to intangible assets and to established connections, both of which would be of value after the war. This method, or some variation of it, was most widely adopted by firms devising concentration schemes. Every nucleus firm was given official certification by the Board which provided its employees with a liberal policy of deferment relative to the military services and protected them from drafts from the Ministry of Labor. It was not liable to requisitions from any Supply Department, and



all available raw materials and Government orders were directed to it.

The Board specified that nucleus firms should be selected for their efficiency rather than for their size. A company which wished to qualify under this classification was required to satisfy the following conditions:

1. It had to provide for the complete closing down of any factory or works with outputs applying to closed units to be transferred to the protected (nucleus) firm.
2. It had to make its own financial arrangements to compensate the firm or firms which were to be closed as the result of the scheme.
3. It had to provide for the plant of the closed firm to be maintained intact, unless the premises should be taken over at any time by the Government.
4. It had to maintain production for export purposes and for the Government which formerly had been undertaken by the closed firm.
5. It had to make arrangements for handling workers affected by the scheme in a satisfactory manner, which included the following provisions:
  - a. Production was to be concentrated, as far as possible, in areas where the competing demands of the munitions industries were least severe.
  - b. Labor released had to be adaptable and of a type likely to be readily absorbed in new employment.
  - c. Labor displaced from factories closed down and which could not be absorbed in the war industries, as far as possible, was to be taken on in factories remaining in production.
  - d. The time for the release of labor, as far as possible, was to be regulated to the demand.

By requiring that these conditions be satisfied the Board of Trade avoided unemployment of skilled workers. Factories in areas where alternative employment was not available were kept in production and all producing firms were asked to release their younger, more adaptable workers in order to make positions for elderly workers displaced from other factories and for women introduced in industry.

In deciding the methods by which the policy of concentration

could be brought into operation the Board could have assumed one of a number of approaches. It might have designated nucleus firms in each industry; or asked an industry, through its trade association or representative body, to prepare a scheme to cover all its members; or, by stating essential facts to the industries concerned, encouraged individual firms to initiate the desired changes in industrial structure. The last procedure was chosen as it was believed to afford the speediest results, to ensure the greatest possible number of devices that might be applied to each trade, to permit firms to adjust themselves to war and post-war problems, and to reconcile traditional British economic policy with the requirements of the war economy.

#### SATELLITE FIRMS

Under the concentration plan satellite firms, or those deemed non-essential to the war effort, were to cease production but their facilities were to be maintained so they could be opened in the future. In some instances they were to be used for storage, for retraining of workers, or as distribution centers for Lease-Lend materials. In a few instances these firms, although they ceased to manufacture, were permitted to trade but their stocks were subject to rationing.

Nucleus firms were to manufacture goods for closed factories and to sell products through their regular outlets. No Government compensation was to be paid for closed plants but nucleus firms were considered to have the clear duty of compensating satellite firms for the care and maintenance of their closed factories.

#### METHODS OF CONCENTRATION

On March 27, 1941 the President of the Board of Trade presented two methods of concentration, commercial and financial, upon the former of which official favor was bestowed. Three types of commercial concentration were suggested. First, a group of companies might arrange that one of their number would manufacture and control products formerly made by other firms for their account with nucleus firms ascertaining the cost of manufacture and selling the product to the satellite firms at cost.

The satellite firms, in turn, with reduced sales staffs, would sell the goods at a profit. A second method was for manufacturers, who had been allotted supplies of raw materials by the Ministry of Supply, to sell their rights to them against a cash payment by the nucleus firm. A third method made a levy upon nucleus firms to be paid into a central pool for the benefit of the satellite firms.

The Board of Trade urged each industry to study its particular problems and to promulgate a scheme for concentration which best suited its requirements.<sup>5</sup> It stated that methods chosen should change, as little as possible, an industry's efficiency, and that they should not permanently injure any individual because of the sacrifices required of him in the interests of the war effort.

#### FINANCIAL PROBLEMS

The difficulty inherent in all methods of concentration was the procurement of capital facilities for financing increased production by nucleus firms. Many accounting problems appeared. For nucleus firms, sales to satellites were to be treated through a special trading account; revenue accounts of satellite firms were to appear in the customary manner. Balance sheets of satellite companies presented accounting questions as, with the closing down of their businesses, valuation of their fixed assets became uncertain. If their plants remained idle, deterioration, if not depreciation, occurred and their balance sheets had to contain explanatory footnotes to cover this fact. One question introduced was that of taxing payments of a revenue character which were made by firms under voluntary financial arrangements.<sup>6</sup> For the Lancashire cotton spinning industry it was decided that amounts paid as contributions to satellite firms by nucleus mills would be allowed as deductions in computing the tax liability, and amounts drawn out by closed firms would be treated as trading receipts, provided that certain other conditions were met. It was estimated that £7,000 was necessary to maintain a mill of 100,000 spindles per year, 1.4d a month for each spindle installed in a closed mill. Contributions from nucleus mills to meet maintenance payments were thought not likely to exceed 1.145d a month for each spindle installed in running mills. A 1d per spindle charge was

collected for the months of April, May and June 1941 from operating mills.

The Finance Bill incorporated provisions covering the liability to taxation of companies which were certified by the Board of Trade as being parties to approved arrangements for concentration of production as follows:

1. For the purpose of computing income tax and excess profits taxes the cessation of its production by a concern when a factory is closed, or the undertaking by a nucleus concern of new activities, in consequence of concentration arrangements approved by the Board of Trade, will not be treated as effecting a discontinuance of the business of the one or the setting up of a new business by the other.
2. Any sum (except a sum of a capital nature or a sum payable under deduction of tax) payable as a result of an approved concentration arrangement to a closed concern by a nucleus concern will be allowed as a deduction in computing the profits of the latter and will be treated as a trading receipt in computing the profits of the former.
3. If, in exceptional cases, an industry or a part of an industry sets up a central fund approved by the Board of Trade into which nucleus concerns pay levies and from which compensation is paid to closed concerns, (not being payments to be used for capital purposes) will be allowed as deductions in computing their tax liability, provided that there is no residue in the fund, and amounts drawn out by closed concerns will be treated as trading receipts.
4. In computing liability to excess profits tax the amount of capital represented by machinery and plant which, under a concentration scheme approved by the Board, a closed concern has temporarily ceased to use, will be regarded as still employed in the business.
5. The deduction allowed for income tax purposes for the wear and tear of machinery and plant will continue to be allowed to a concern which has closed as a result of an approved concentration arrangement, but still retains the machinery, and this deduction will be computed as if the machinery and plant were in normal use.

The Central Price Regulation Committee announced in September 1941 that payments made by nucleus firms to closed firms

under concentration schemes, *prima facie*, would be treated for purposes of the Goods and Services (Price Control) Act as allocations of profits, and that they could not be treated as part of their costs and expenses for purposes of arriving at proper selling prices. Where, however, a nucleus firm could show that, as a result of the application of this general rule, it would be injured financially, more than it would have been apart from concentration, the Central Committee would be prepared to allow as part of the nucleus firm's costs and expenses, for the purposes of this Act, an appropriate amount as representing such part of the compensation payments as the nucleus firm could prove was reasonably required for irreducible expenses of closed firms.<sup>7</sup>

#### PROPOSED SCHEMES

As each industry raised its own particular problems no invariable scheme could be worked out for all companies coming under the concentration plan. By April 15, 1941 about 500 different schemes of concentration had been offered to the Board of Trade for approval. Of this total 200 were approved immediately; these covered an annual turnover of £50,000,000 (excluding the textile trade) and the number of employees released amounted to 25% of the total employed in the industry.<sup>8</sup>

Speed of decision in the cotton industry was reached through a reduction in raw material supplies and by segregation of mills into nucleus firms, mills which were to be closed, and unclassified mills which were to await future decision. In the spinning industry 111 firms, employed on Government orders, were designated as nucleus, 61 were closed down and 229 awaited decision. The hosiery industry was among the first to form a concentration plan.<sup>9</sup>

In the woollen industry a Central Concentration Committee had been formed of representatives of federated and non-federated firms. For pottery firms applications were admitted from any company that could show that, under concentration, nucleus factories remaining in production would be operated at not less than 75% capacity.<sup>10</sup> Leading manufacturers of rayon had closed a number of factories and concentrated production in one large mill built for mass output. In cotton spinning and weaving industries

about 50,000 workers out of 250,000 were released. Concentration in the Lancashire cotton spinning industry was approximately completed by the end of June, and 117 spinning mills had been closed. Another 81 could obtain no more raw cotton and were closed within a month. Production was concentrated in 277 mills. Of 1,019 weaving sheds 299 were listed as nucleus, 213 were scheduled to close, and the remainder were under consideration. The carpet industry closed one-half of its firms and released 10,000 out of 17,000 workers, pottery released 4,000 out of 37,000, shoes 10,500 out of 105,000, rayon 2,500 out of 16,000, hosiery 20,000 out of 95,000.<sup>11</sup> The Board of Trade maintained a close scrutiny of all methods submitted as it was realized that changes in industrial structure, necessitated by the war emergency and brought about through the concentration plan, would persist into the future. It furnished assurances that all schemes entered into were reversible and that, in its opinion, no danger existed of a single firm being in control of an entire industry after the war.

Some industries had experienced difficulty in setting up their schemes. The cutlery industry, for example, was unable to make voluntary arrangements and the Board of Trade granted nucleus status for a period of three months from September 1941 to about 50 firms. During this period these firms were required to make arrangements for the transference to themselves of production of satellite firms; if this were not done their certificates of nucleus status were cancelled. Satellite firms, which transferred their production, possessed the advantage of preserving their identity as partners in nucleus arrangements. The Board, also, concentrated the piano industry, nominating seven nucleus firms to undertake production for all principal makers in the industry, a plan which released 310,000 square feet of space to the Government.

As a general rule if an industry were composed of a small number of large units it made better progress in concentration than if it possessed a large number of small units.<sup>12</sup> The least success in formulating schemes was found in industries which were widely distributed geographically, or which consisted of a large number of small firms, or which had a peculiarly complicated structure. Many difficulties were encountered in the plan to con-

centrate the cosmetic and jewelry industries because of their scattered units. Manufacturers of sports equipment and musical instruments did not make plans as quickly as expected and slow progress occurred in the woolen and worsted industries. If firms were unwilling or unable to secure a concentration plan within a reasonable time, or in a manner not acceptable to the Board of Trade, the Government possessed the legal power to impose its requirements upon them. Less compulsion was found necessary than had been anticipated. Voluntary effort was relied upon as a general rule and two-thirds of the schemes submitted were on this basis. Voluntary proposals included: toilet preparations, gloves, photographic goods, sports equipment, musical instruments, toys, lighters, umbrellas, plastics, carpets, lace, fountain pens, cutlery, jewelry, linoleum, leather goods and paper. Where voluntary plans, however, did not cover an entire industry the Board selected the method to be followed and designated the nucleus firms.

By the middle of July 1941 approximately 110,000 workers and 16,500,000 square feet of factory space had been placed at the Government's disposal. By December 1941, 150,000 workers and 47,000,000 square feet of factory space (excluding wool textile industries) had been released.<sup>13</sup> The figures for workers covered about one-fifth of the number engaged in the industry before concentration was attempted but they did not include those for whom immobile labor was substituted or those released before concentration started. The cotton industry composed the major share of concentration, but for each of the industries of hosiery, boots and shoes, carpets, linoleum, pottery, rayon, tiles, steel sheets, and leather goods more than 1,000,000 square feet and 2,000 workers had been released.<sup>14</sup> By July 1942 250,000 workers, not including 90,000 affected by Limitation of Supplies Orders, and 55,000,000 square feet of factory space had been released to the Government, 2,100 companies had been closed and 3,450 nucleus certificates had been granted. Two-thirds of the space released was used for storage and held in reserve for emergency production.

As a rule concentration has not affected the volume of production but only its location. In virtually all the industries covered

by Limitation of Supplies Orders and in some trades affected by raw material curtailment the process of concentration has been completed. In the latter group concentration is complete in cotton spinning and weaving, and nearly completed in the footwear trade. The most common arrangement has been one under which nucleus firms manufacture at cost for closed plants which continue to sell the product. Many firms welcomed the plan as, with a reduced turnover on costs, in some cases, serious effect on their prices had been caused. Because of the war their working capital had been depleted and they realized that their business mortality would be increased and their chance for post-war reconstruction decreased if they were not assisted in the war period.

A strong possibility exists of the concentration scheme being extended to industries other than those originally specified. The Minister of Labor declared in December 1941: "We must carry concentration further . . . into the realms of banking and insurance and ancillary services of all kinds." This opinion was held by the Kennet report issued in 1942. The Board of Trade has indicated that this extension will depend, to an important degree, upon whether an industry possesses a substantial surplus capacity, and whether concentration would release a substantial amount of labor or factory space of importance to the war effort. As new schemes are formulated in additional areas of activity it will be possible to utilize the experience of consumers' goods concentration plans, as well as to assess the value of the entire concentration program.

#### RECENT PHASES OF CONCENTRATION

Recent developments of the concentration plan have led to a consideration of concentration of products in contrast to the original procedure of concentration of production. In an ever enlarging field utility products have been designed to secure economies in the various factors of production. The manufacture of a large number of articles deemed non-essential to the war effort, embracing toys and games, leather trunks, bags, haversacks and other leather articles, certain types of fancy glassware and metalware, cash registers, hand-operated lawn mowers, furniture and certain kinds of jewelry and cutlery, has been prohibited. The Board of



Trade is now considering the adoption of compulsory concentration plans and the nomination of nucleus firms. Under this procedure the industry concerned would be consulted but plans would be worked out by the Government. To date this procedure has been applied only to the soft-drinks and the clothing industries. In addition, concentration is being applied to business and administration, such as the distribution of food, and tentative proposals for the concentration of the retail trade are under consideration.

These developments emerged from the original plan to concentrate those industries subject to Limitation of Supplies Orders and five, namely cotton, rayon and silk, wool, paper, boots and shoes, subject to raw material control. The number of insured workers in these industries totaled 1,000,000 in July 1939, although it had

<i>Industry</i>	<i>Workers Released</i>	<i>Factory Space Released</i>	<i>Nucleus Establishments</i>
Bedding	340	158,000	35
Bicycles	320	154,000	3
Boots-Shoes	14,800	4,005,000	332
Cardboard Boxes	1,240	1,803,500	
Carpets	10,000	3,500,000	17
Corsets	1,100	197,000	39
Cotton	117,000	26,000,000	1,364*
Cutlery & Razor Blades	550	167,000	98
Gloves	1,000	207,000	98
Hat Hoods	1,600	1,111,000	
Hosiery	37,000	6,009,000	416
Iron and Steel	3,600	660,000	29
Jute	250	1,080,000	87
Leather Goods	2,750	452,000	100
Linoleum	600	980,000	8
Musical Instruments	300	390,000	7
Narrow Fabrics	4,000		
Pottery	9,600	2,400,000	90
Rayon	3,500	1,000,000	
Sports Goods	80	97,500	20
Tiles—glazed	1,500	542,000	11
Toilet Preparations	770	458,000	39
Toys	850	298,000	18
Wool	10,000		713
Other Industries	2,850	221,000	
Totals	225,600	51,890,000	

\* Nucleus establishments for cotton include rayon.

declined to about 700,000 in April 1941 when concentration was begun. By July 1942 the total stood at 350,000. The progress of the scheme can be seen from the table on page 93 showing concentration to April 1, 1941 with workers released, factory space released and nucleus establishments.

Some notes on schemes carried out by specific industries under the concentration plan, as it was originally conceived in 1941, follow:

### *Cotton*

After the concentration plan was put into operation, as previously described, with care and maintenance of closed mills accepted by the Board of Trade, the industry discovered that concentration of labor had been too drastic to meet the increased Government demand for cotton goods to meet Russian needs. In January 1942 the industry was brought within the Essential Work Order which made it impossible for cotton workers to leave their jobs. An agreement was reached whereby cotton spinners worked an extra three-quarters of an hour a day for at least three months to increase outputs. By the end of July 1942 the increase in yarn output was more satisfactory because of the transfer of more workers to the cotton industry and the influx of part-time labor. In April 1942 the Cotton Controller assumed sole responsibility for distributing cotton and for employing efficient companies as his agents. Manufacturers' sales were regulated by quota but the major portion of the quota could be used only for certain types of utility cloth, sold within certain price limits. The quotas permitted for this production were based on exact calculation of the amount needed to satisfy civilian purchases of utility clothes through clothing rationing coupons.

### *Rayon*

After three months of concentration the spinning section of the rayon industry had secured virtual completion of the plan by voluntary agreements. In January 1942 yarn producers agreed voluntarily to deliver supplies of continuous filament yarn staple fibre according to Government allocations. In operation of the plan, staple fiber was distributed throughout by the Cotton Control, while yarns for the weaving trade were allocated (after preliminary approval by the Cotton Control) through the Rayon Allocation Office, a voluntary body run by the rayon producers.

The requirements for utility rayon clothing limited production but raw material was not so closely controlled as in the cotton industry.

### *Wool Textiles*

The concentration of the wool textile industry was slow in its inception. A Central Concentration Committee finally was formed, on which there were representatives of both Federated and Non-Federated firms, which prepared a plan under which firms were to be invited to join a Central Concentration Association to administer the general plan, approve individual plans, recommend the approval of nucleus firms, and establish a Central Fund to assist closed firms. The Committee did not recommend any large-scale closing of firms but suggested that firms in areas where demand for labor for war production was likely to arise make arrangements with other firms to assume their production in case of sudden necessity. An official report, issued in June 1942, indicated that concentration in this industry was gradual and haphazard although almost 10,000 workers had been released. This industry today requires all the labor it can obtain to satisfy essential Government requirements. Raw material supplies are strictly rationed. The demand of the Government for war purposes and for utility clothes leaves little labor for the manufacture of goods for export purposes and none for satisfaction of civilian demand beyond the utility range.

### *Hosiery*

Concentration was secured quickly in this industry and almost entirely by voluntary arrangement. By April 1, 1942 33,000 workers and 5,046,000 square feet of factory space had been released. Concentration has been achieved, in the main, through the agency method, the firms absorbed keeping their old customers, identities and brands, though the introduction of utility clothing may limit this in future months.

### *Lace*

The original plans for securing concentration of this industry were less complete than the actual plan brought into effect in May-June 1942. A heavy demand for lace unexpectedly occurred because of the collapse of France, and the use of plain net for camouflage and mosquito netting and of curtain net for pasting on windows to prevent splintering. In May 1942 a new plan was introduced under which all lace curtain firms (about 60 in number) were concen-

trated into one corporation, with two directors to represent England, and two Scotland, with a controller for each, and with all manufacturers participating as shareholders. Non-producing firms shared in the profits and a provision was made for machines not in production to be maintained in good condition. The plain net section, engaged on Government work, was not affected and the embroidery section was closed down because of the diminished export market and the introduction of utility clothing.

### *Cutlery*

As the cutlery industry was unable to prepare its own plan for concentration the Board of Trade nominated nucleus firms. In September 1941 about 50 firms were named, with nucleus status granted for three months, and in January 1942 75 were named as nucleus and 45 as participating firms, that is, firms which had made or were to make arrangements for their production to be absorbed by nucleus firms. By April 98 firms had assumed nucleus status.

### *Paper, Box and Cartons*

The paper industry proved difficult for large-scale concentration on a voluntary basis. In November 1941 the Board of Trade at a meeting with representatives of manufacturers and workers proposed a plan under which 25 mills, including some where voluntary concentration was in effect, would be closed. The representatives, however, would not approve the plan and the Board did not use compulsion but granted nucleus certificates to those paper and board mills which were essential to the war effort. In June 1942 a more comprehensive plan was adopted when three advisers were appointed to review the industry region by region, and the Board proposed to nominate nucleus firms on condition that they could arrange to absorb production of firms which were to be closed. Establishments engaged in the manufacture of composite containers of fibre board packing cases were not brought within the plan but all firms were to cooperate or their raw materials were to be discontinued.

### *Pottery*

Concentration proved easy in the china, porcelain and earthenware sections of the industry and in the section producing tiles and sanitary ware but more difficult in areas of higher craftsmanship. Every firm applying for nucleus status had to release labor by pro-

ducing at a minimum of 75% capacity with 30% less labor. By April 1942 the pottery and glazed tile industries had released 11,100 workers and 2,942,000 square feet of factory space.

### *Boots and Shoes*

By April 1942 13,200 workers had been released from this industry by concentration, and the whole picture today is affected by the utility boots and shoes requirements. Although 3,000,000 pairs of shoes were sent to Russia total production has been reduced from 107,500,000 to about 80,000,000 pairs.

### *Pianos*

During peacetime this industry produces between 50,000 and 60,000 pianos a year. Production was concentrated in seven firms, releasing 210,000 square feet in addition to the 100,000 already released through wartime contraction of the field. Today between 10,000 and 12,000 pianos are produced.

The above summary of the concentration plans introduced through June 1942 provides insight into the usual type of scheme adopted. On July 23, 1942 the President of the Board of Trade discussed the present tendencies of concentration in the House of Commons, acknowledging the cooperation of both manufacturers and trade unions but indicating that certain re-concentration plans would have to be adopted. He emphasized the necessity of increasing manufacture of utility products or "goods sufficiently clearly designed for their prices to be fixed, planned to meet essential needs in a sensible manner, and produced in the most economical way possible." In addition to utility clothing the Government planned utility pottery, hollow ware, umbrellas, furniture, pencils, cutlery and suitcases. The Government policy would define exactly what articles might be produced within an industry. The glass industry, for example, would produce only tumblers, jugs, mugs and small mirrors and in the case of jewelry only clocks, watches, identification bracelets, cuff-links, studs and plain wedding rings. Through this policy at least 30,000 additional workers were to be released. Under its operation concentration, as a principle, would be extended, for example, beyond the originally specified clothing industries with the appointment of 2,000 designated firms to manufacture utility clothing for the whole country. Details of the new proposals are given below:

*Clothing*

On June 1, 1942 the plan for the production of utility clothing came into operation with clothing to be manufactured, as a general rule, according to exact specifications based on economical use of materials, and to be sold at a low maximum price without the purchase tax of 33% on the wholesale price which formerly was added. Out of 25,000 firms in operation 2,000 (mainly large mass-producing firms) were nominated by the Board of Trade as designated firms for the production of clothing and these firms were to be occupied about 75% by Government and service orders and 25% by civilian demands. Originally nondesignated firms, about 23,000 in number, were not to be afforded any opportunity to participate in the production of clothing but the Board later decided to give the whole clothing industry an opportunity to make voluntary plans for concentration. Concentration, according to its opinion, would proceed by regions and designated firms would be regarded as natural nucleus firms although undesignated firms would have a chance to qualify as nucleus firms.

*Soft-Drinks*

A Memorandum, issued by the Board of Trade on June 16, 1942, outlined the Government's proposals which, after consultation with the trade, would secure the reorganization of this industry. The output of carbonated drinks, first, was to be reduced by 25%, but the output of concentrated drinks, such as syrups and essences, would be increased so that the supply of drinks would remain stable with a reduction of goods to be distributed of approximately 400,000 tons per year. Quality standards were laid down and maximum prices prescribed. Production was to be concentrated into fewer factories with 200 to be closed to start with but firms still producing would share their profits with closed firms. All labels bearing manufacturers' names and brands would be prohibited for the duration, so no firms still producing would gain an advantage over former competitors. Deliveries were to be drastically reorganized so that each factory would deliver in a prescribed area. A Wartime Association of Manufacturers was to be formed to protect the interests of all manufacturers, both large and small.

The Memorandum concerning the reorganization of the soft-drinks industry is printed here in detail because it indicates the policy which may be adopted by the Government in future

months in carrying out its concentration and reconcentration plan:

The Ministry of Food has been reviewing the production and distribution of soft drinks and after consultation with the Trade has decided on the following measures of reorganization:

1. As a first step the output of carbonated drinks will be reduced by 25% as compared with 1940-41, but the output of concentrated drinks, such as fruit squashes, cordials and crushes will, if possible, be increased so that the total supply in terms of drinkable liquid will remain at the 1940-41 level. It is estimated that this alone will reduce the gross weight of the goods to be distributed by about 400,000 tons a year.
2. As soon as possible, quality standards will be laid down and maximum prices will be prescribed. This is not because the drinks sold by established manufacturers have shown any general tendency to rise to unreasonable levels, but for two reasons. First, there is an increasing number of new products coming on to the market, some of which are of low quality but are sold at higher prices than the best products of the established trade; this means that the manufacturers are either making unjustifiable profits, or else they are paying inflated prices for their raw materials and containers, which are in short supply. Secondly, the restriction to be imposed on supplies of unconcentrated drinks must lead to rising prices.
3. Production will be concentrated into fewer factories. This is necessary because factory and storage space must be released for essential war purposes, and more labor must be given for the Services and for essential production. The aim must, therefore, be to see that all the machinery in factories producing soft drinks is working to capacity, and that the highest possible output is obtained per man or woman hour. Further, wherever one factory can be made to do the work of two, there is a saving in the fuel required for raising steam and in the consumption of electricity for lighting or heating.

Over 200 factories will have to be closed to start with. In order to protect the interests of the firms whose factories are shut down, a scheme of compensation is being worked out by the Board of Trade in consultation with the Ministry. This will provide for the firms that are left in production to share their profits with those that are closed down.

The scheme has not yet taken final shape, but its aim will be to

ensure that no firm, whether it remains in production or is closed, shall gain a fortuitous advantage over its competitors as a result of the concentration of production, and that any gains or losses are shared as equitably as possible by the whole industry. Special provision will, therefore, be made to enable closed firms who wish to do so, to start production again as soon as circumstances permit after the war.

4. All labels bearing manufacturers' names or brand names will be prohibited for the duration of the scheme of concentration. This will give protection to the firm that is shut down against the danger of losing its goodwill to a competitor. The alternative way of protecting the goodwill of a closed down firm, viz., that its products should be manufactured for it and distributed under its own label, is too wasteful of space and manpower in the factories, and of labor in distribution, to be capable of justification in present circumstances. The abolition of brands and manufacturers' names will also greatly simplify the problem of rationalizing distribution. The Minister decided, however, that, in order to maintain the national goodwill of the country's medicinal springs, the labels on bottled spa will continue to indicate the location of the spring, but not the name of the bottler.
5. The system of deliveries will be radically reorganized to save petrol and wear and tear of vehicles and tires. All overlapping rounds will be eliminated, and each factory will deliver in a prescribed area, the areas being defined locally so as to secure the most economical use of petrol. The direct delivery of supplies from the factory to the domestic consumer will be discontinued, and the trade of these factories will be diverted through retailers. This is necessary in order to save petrol.

The above program can only be effectively carried through with the cooperation of the whole trade. The Ministry has, therefore, requested the trade to form a Wartime Association of Manufacturers, and the governing body of this Association is now working out plans to implement the Ministry's policy. The Ministry desires to emphasize that the Wartime Association will protect the interests of all established manufacturers, giving equal consideration to the claims of the small and the large producer. The guiding principle of the Association will be that all members of the trade must share and share alike for the duration of the war.

Other plans recently made for concentration include:



*Bricks*

At the end of 1941 a special committee was appointed to consider this industry during the war, and it recommended a 12½% cut in output immediately with a special extra cut of 4% to reduce stocks to the level needed, that a number of plants be closed down, and that firms left in operation pay a levy of 3s for every 1,000 bricks produced towards the fund to maintain closed works in operating order. A second report, issued in June 1942, indicated that the plan had not been put into operation and suggested that the closing of brick plants should be the responsibility of the Ministry of Works and Buildings, with the country divided into 10 areas, each area being allotted the production of a proportion of the bricks needed with the care and maintenance fund administered by a National Building Brick Council. This industry will be affected by a recent declaration that the Government expects to extend building for war purposes.

*Food*

Independently of the Board of Trade the Ministry of Food has applied concentration to the production of food wherever feasible. The manufacture of standard margarine and compound cooking fats has been operated by a combine, Marcom, Ltd., representing all the manufacturers from June 1940 onward. In 1941 lard producers were brought within this combine. The edible fat melting industry has been subjected to concentration to secure economy in transport, manpower and coal consumption, nucleus firms being selected by the Ministry of Food with the cooperation of the industry. Concentration plans have been prepared for bacon curing, butter-packing, cheese processing, milk canning and drying, glucose manufacture, provender milling and compounding, and egg packing. Progress has been made in the concentration of the distribution of food. Wholesale buyers of margarine, fats and flours have to take it from the nearest factory or mill. After September 30, 1942, retail sales of milk were rationalized in all urban areas with a population of over 10,000. The Milk Marketing Board at that time became the sole buyer, dairymen were required to form Associations to curtail overlapping in deliveries, with each dairyman either taking his allotted share of work or going out of business with compensation given by the Association.

*Chocolates*

Proposals have been discussed for concentrating this industry and perhaps some plan similar to that of the soft-drinks industry may be adopted in the future. At the present time, however, production is carried on in about 100 factories, varying in size. Productivity per worker varies from 3 workers producing a ton of chocolate a week in some factories to 20 workers in others. Simplification of lines has secured the reduction from 99 in 1939 to 16 and as to packings from 237 to 29.

*Diamond Cutting*

This industry was concentrated in May 1942 when a controller of gem diamonds was appointed to work out plans to release skilled labor, ensure an adequate supply for war purposes, and normalize wages. Sixty diamond-cutting firms were to concentrate voluntarily into 6 groups, reducing total employees from 600 to 275.

*Packaging*

A new Control of Packaging Order, July 1942, was introduced to concentrate packaging by laying down a definite number of sizes in which commodities may be packed. Labels were established, earlier in the war, not to exceed 20 sq. inches in area, and tubed products had to be sold without cartons. Later shirts, soap and certain foods could not be packaged. In many trades manufacturers voluntarily reduced the number of sizes of packs available and adopted standard containers.

*Civil Service and the City*

A Special Committee was appointed in 1941 to survey the labor employed in the Civil Service and in June 1942 to survey the operation of Banks and the City—both the objective of concentration. Some voluntary concentration already has occurred.

*Retail (Non-Food Trades)*

This problem will be discussed under small firms. Although the compensation plan, afforded by the Retail Committee, has not been adopted some concentration plan will have to be devised for the retail trade to meet war conditions.

As resources devoted to the manufacture of consumers' goods must be reduced to the lowest possible level, with further reconcentration of industries and the introduction of the plan in new

areas, it is apparent that the process of industrial concentration is far from complete.

#### SMALL FIRMS

In 1936 out of 141,394 separate firms, 108,765 (77%) employed no more than 25 workers each. Concentration plans did not apply to firms employing less than 20 persons. Of 4,000 factories in industries required to submit proposals 1,400 employing less than 20 persons were considered too small for concentration, 950 were closed, 1,000 continued in operation, and 650 operated on Government work. Of factories over the minimum size two-fifths have continued to be engaged wholly or partly on the manufacture of consumers' goods. Many small firms, when they found the shortage of raw materials and labor and the lack of Government orders forced them to close down, made voluntary schemes with each other, as they wished to resume operations after the war. They, however, had to make private arrangements as the Government provided no compensation but it permitted them to maintain their goodwill and selling organization.

Some small companies did not realize, at the announcement of the concentration plan, that the Board of Trade was eager for them to make their own arrangements and not to await overtures from large companies. Others hesitated to join larger firms for fear of losing their trade lists. The possession of size was found to provide firms with a certain amount of weight in the discussion of methods of concentration, especially in the case of large companies which possessed Government orders with production dates guaranteed. The Board stated its preference for small firms to join forces with small firms. It wished them to receive protection and to have a fair chance of survival.<sup>15</sup>

As the questionnaire of the Committee on Retail Trade in Goods was not favorably received the problem of redundancy has remained to take care of itself. Drastic restrictions have been imposed on the sale of merchandise and permits must be obtained for the establishment of new shops or for the introduction of a new type of goods. The concentration of the distributive trades, however, has been secured in a haphazard manner, and it has resulted in individual hardships and the dissipation of resources

in duplicated overhead expenses. These trades have far more employees than those affected by the concentration scheme. The Board of Trade has stated that the volume of goods available for sale must be curtailed further, that no compensation will be paid for loss of business, and that employees in these trades must be diverted to war industries. The share of trade held by multiple and cooperative stores and that enjoyed by smaller retailers were not altered, although the first-named had a much higher share of easily transferable labor than the small retailer and faced reduction of trade and replacement of workers by older employees. Grouping of stores, however, was permitted. Although it is apparent that concentration will reduce the number of small firms for the duration, after the war these organizations will tend to increase in number with the enlarged demand for consumers' goods.<sup>16</sup>

The Liabilities (Wartime Adjustment) Act, 1941, designed to save a small business man from bankruptcy if he could not meet his liabilities and to enable him to resume business later in more favorable circumstances, goes beyond the Courts (Emergency Powers) Acts by which a debtor's liabilities are postponed. Under the former Act the Liabilities Adjustment Officer, essentially a conciliation official, receives applications in his district from small retailers "for advice and assistance in enabling them to arrive at an equitable and reasonable scheme of arrangement with their creditors and, in particular, at such a scheme of arrangement as will enable them, if they carry on a business or would, but for war circumstances, carry on a business, to preserve that business or to recover it when circumstances permit." If an application to a Court of Law is essential, in a case where the debtor carries on a business or intends, when circumstances permit, to resume a business suspended as a result of the war, the Court may decide:

1. To except from the property to be realized the business, any premises used for the business, and such other property as, in its opinion, is required for the purposes of the business.
2. To postpone the payment of the debts, or any of them, for such period as it thinks fit.

If the Court permits the debtor to remain in possession of the

premises which he holds on a lease or tenancy, it may reduce the rent to their current lettable value. If the debtor has borrowed money on a mortgage of his house or business premises the Court can reduce the rate of interest on the loan or postpone its repayment.

It has been estimated that nearly 50,000 non-food shops have been closed because of the war and that, in view of the restriction on supplies and the need for a further reduction in personnel, perhaps as many as 100,000 may have to suspend operations. In a few industries, as for example, hosiery, outright purchases of small companies were made by large firms until the practice was ended by the formation of an association of small manufacturers which arranged nucleus schemes within its membership. The schemes, accepted by the Board of Trade, fell into three categories: first, the nucleus firm manufactured for the absorbed firms at cost; second the absorbed firms installed their machinery in the nucleus plant and shared the overhead expenses of the latter; third, the nucleus firm purchased the yarn quotas of the absorbed companies. The satellite firm, under none of these methods, suffered a total loss because under the first two it received a trading profit and under the third a return from the sale of the yarn quota. In the hosiery industry and in certain other fields, therefore, small firms saved themselves from annihilation through their initiative and pooling of resources.

The Retail Trade Committee, in its Third Report, June 1942, proposed a compensation scheme for retailers who voluntarily retired from business with the sum to be raised by a levy on those merchants who remained in operation. This levy would be chargeable as a business expense, and it would be calculated on turnover with all traders exempted if their non-food turnover was less than £1,000 unless they elected to enter the plan voluntarily with a minimum assumed base figure of £500. Retailers who withdrew from the business field and benefited from the plan would not be permitted to reenter it during the war but they would be provided with a certificate affording them with a prior right to reestablish themselves at its conclusion. This plan, now under consideration, offers a solution to the war problems of the small retailer.

The drastic measures introduced to secure concentration of firms have been carefully supervised in the case of small companies in order that the demands of the national emergency may receive satisfaction, that monopolies do not receive impetus, and that no permanent injury has been given to any individual.<sup>17</sup> It is recognized that firms promoted by and for the war effort will exercise great power over other firms which do not receive this stimulation. Precautionary measures, therefore, have been adopted by the Government in the interests of the war effort and consideration has been given to the future of the national economy.<sup>18</sup>

#### POST-WAR PROBLEMS

The World War changed the competitive industrial structure in Britain to one in which cartels and monopolies were of importance and between that war and this conflict influences of these two types of organization increased in strength. At the inception of this war the nation's business structure was divided about equally between competition and association. After peace comes this structure may be largely monopolistic in character with industrial policy determined by trade associations.

With the concentration of industry that has been promoted by the Government in consumers' goods fields, and which will be extended in other areas in future months, it is possible that business will become increasingly monopolistic in trend with cooperation substituted for competition. The form of organization might approximate that of the Iron and Steel Federation. It would not be limited to industries but would include merchants, wholesalers, and retailers. As it is realized that peacetime controls cannot be administered with such broadness and such drastic force as those introduced in wartime, a simple approach to Britain's post-war economy might conceive an industrial structure which would rest upon trade associations, monopolies and cartels operating with little restraining Governmental influence. The Board of Trade has stated its policy as against providing trade associations with any governing place in concentration plans. This trend was apparent before this war. The Report of the Committee on Trusts (1919) drew attention to the increasing tendency for industries

to form trade associations with the aim of restraining competition and controlling prices. In 1931 the Committee on the Restraint of Trade stated that trade associations and monopolistic combinations should be subjected to investigation but this proposal was never carried out. Although concentration schemes are reversible when peace comes, post-war reconstruction plans, it is recognized today, will have to consider the long-range effect of wartime concentration upon industrial structure.<sup>19</sup>

The development of monopolies in industries which have been concentrated may be one serious outcome of the war. The results of present tendencies may be to establish, in such industries as textiles, pottery, and hosiery, forms of business organization operating against the public interest. These organizations would emphasize price maintenance, prevention of entry of newcomers to the trade, and regulation of trade practices to mention only a few of their anti-social aspects. There is great danger of the industrial structure, through the cumulative effect of the concentration plan, becoming so rigid that enterprise and initiative will be stifled and a decided trend sponsored toward the restriction of production to the point of securing a certain level of profit per unit of output. The most important post-war industrial problem, as it is revealed today, will be to design methods of Governmental control which will prevent these developments.

These restrictive tendencies inherent in concentration have been considered by the Board of Trade in any scheme proposed to ensure that no industry receives permanent damage and dislocation. In the debates in the House of Commons on the methods of concentration it was stressed again and again that those individuals who were engaged in the industries to be brought under the plan should adopt the widest possible concept of their obligations to the nation in designing and carrying out concentration schemes. The Government wishes to avoid the foundation of a new business order which will reduce, on a permanent basis, the number of small companies in any industry, but it is determined that all companies remaining in business during the war will be operated at full capacity on essential production. The Board's general principles have been those of preserving the pre-war structure of British industry to the greatest possible degree and of maintaining as

many companies as possible in existence even though their production has been concentrated. Disapproval has been accorded any scheme which removes from original firms their sales outlets, their current knowledge of the trade, and their interest in its profits.

In selecting nucleus firms the Board of Trade has stressed that efficiency rather than size was to be the governing factor. What it has been unable to state, however, is what the permanent effect of the concentration schemes induced by the war will be, and whether temporary concentration will, in the long run, lead to cartellization and rationalization of industries covered by the plan.<sup>20</sup> It is apparent already that concentration will exert permanent effects on the structure of individual firms as many of them will find it advantageous to remain concentrated after the war. The problem has been to secure the collective structure required for wartime concentration of industry but, at the same time, to ensure the resumption of post-war competition. One solution suggested was to limit nucleus firms for the war to their 1939 production and to set aside, out of wartime profits of the industry, a fund for restoring the goodwill of firms closed down. The absorption by larger firms of smaller companies has occurred frequently under the operation of the concentration scheme. The longer the war lasts the greater will be the danger of amalgamation and the more difficulty will be experienced by owners of closed firms in their attempt to reestablish their companies. The Board of Trade has assumed the responsibility of attempting to reinstate as much as possible of the nation's pre-war business structure. If it prevents the creation of monopolies the concentration plan, in summation, may bring about greater efficiency of business operation and decrease company failures.

No Parliament can limit the absolute discretion of its successors but, subject to this uncertainty, the British Government has offered, with the assent of the present Parliament, the best assurance it can that closed firms will be revived after the war ends.<sup>21</sup> One avenue open to it, in carrying out this promise, will be to admit new individuals to business fields only if they possess new processes, leaving industries to those firms, closed through concentration schemes, which can be reopened. As it will be able to



regulate the use of raw material supplies the Government possesses the power to control industry when peace comes, and this control can be used to facilitate the transfer of industries to a peacetime basis. But as the sudden contraction of control would retard industrial progress and hasten the development of permanent cartels the relaxation must be gradual and supervised.

The consideration by the British Government of wartime concentration has been reflected in the adoption, by the American War Production Board, in July 1942, of the plan and its application to most of the industries producing consumer durable goods and to some other fields. The American scheme, utilized because the country had reached the stage at which shortages of vital materials and labor were apparent, was patterned in all of its aspects upon the British concentration plan. It has led to a consideration of such problems as the nomination of nucleus firms, the compensation of closed firms, and the reopening of firms in the post-war period. The application of the British concentration plan to American civilian industries marked a major change in the American war economy as, previously, limitation of the output of these industries had been secured through the imposition of uniform percentage reductions to all firms in the field.

It is recognized by British authorities that the concentration plan may change the face of their nation's industries forever. Future months should witness the concentration of non-essential production far beyond the original scope of the plan.<sup>22</sup> As its results have proved so satisfactory its base will probably be broadened to include clerical, professional and additional industrial activities with the objective of centering every effective national resource on the promotion of war objectives. It is imperative, therefore, that consideration be directed at the present time to the complex, interrelated and vital problems introduced by the Government plan to concentrate industry, and any new proposals to continue this process, if some semblance of pre-war British structure is to be retained for the post-war years.

## CHAPTER IV

### RECRUITMENT OF LABOR

The change from the war to the peace economy has been apparent, especially, in the field of labor. The progression of events, following declaration of war, has emphasized that production, rather than finance, is the major consideration in the fight for victory and that drastic efforts have been essential to secure the most efficient operation of industry.

Ernest Bevin, Minister of Labor and National Service, has stated on more than one occasion: "Instruments of production are more valuable than gold at the present time. There must be no idle material or idle instruments." To achieve the mobilization of labor, implicit in this statement, has required of the Government, of trade unions and of workers complete cooperation and rapidity of adjustment to rapidly changing conditions. The lack of recognition, for the first nine months of war, of the necessity of mobilizing labor, increasing its efficiency, and controlling it as an essential war commodity, has been replaced by a determination to secure the maximum efficiency from every worker. The enlistment of labor has involved many illusive and complex factors which had to be brought under central control and concentrated upon the task of achieving maximum war production.

#### BEFORE THE WAR

The responsibility for the direction of industry before the war and for the first eight months of its duration rested in the National Government headed by Mr. Chamberlain. Although organized labor was not represented in this Government it had thrown its vast resources into the struggle to arm the nation and had offered its services as a constructive opposition. Arthur Green-

wood had informed the House of Commons on the first day of war that the Labor Party was willing to make a free contribution to the national cause.<sup>1</sup>

In pre-war years labor had voiced its stand against aggression and its representatives had served as members of committees and councils acting in an advisory capacity to the Government.<sup>2</sup> Trade unions had secured recognition from both the State and the employer over a wide industrial area. They had assisted in the development of voluntary negotiation schemes and arrangements for wage regulations by statutory bodies. And, as the result of a long struggle, the unions had attained appreciation of their services to their members and to the community at large. Before war came, and under the Chamberlain Government, labor felt that British resources were wasted and that drastic measures should be introduced, even at the cost of the temporary suspension of recently won labor regulations, if the maximum war effort were to be secured.

The formation of the Churchill Government on May 11, 1940, therefore, was welcomed by the Labor Party which accepted an invitation to enter it. When the Prime Minister approached the Party its Annual Conference was about to occur, but as time was short the National Executive Committee of the Party answered in favor of the acceptance of the invitation. This move was ratified by the Conference. Ernest Bevin, General Secretary of the Transport and General Workers' Union, was named Minister of Labor and National Service. The War Cabinet included two other members of the Labor Party besides Mr. Bevin, namely, Arthur Greenwood and Clement Attlee, the latter of whom remained in it after major changes in the early months of 1942. Blackouts, the disruption of industry, building and transportation, and the contraction of luxury industries affected labor as did the National Services (Armed Forces) Act. It became the duty of the new Minister to bring organization to the labor market.

#### MOBILIZATION FOR WAR PRODUCTION

Precious months were wasted at the inception of hostilities because the Government did not appreciate the necessity for an accurate and immediate survey of, and the imposition of a control

over, the manpower of the nation.<sup>3</sup> Workers were permitted to move from industry to industry, from locality to locality, bribed by the inducement of high wages. They were allowed to manufacture articles for consumption, not for war or for exportation. The Government had made little effort to study the tremendous problems which had appeared in the first eight months of war or to furnish the directing force to the proper use of labor supplies.

As an example of the state of affairs that existed before Ernest Bevin became Minister of Labor, although the engineering and shipbuilding unions had offered their services to the Government early in 1940, no definite plans had emerged for their use and for the enlistment and training of other workers. When he assumed office he became responsible for administering the National Service Act and for adjusting the demands for manpower between the military services and the factories. He set up the procedure by which labor was distributed according to the importance of production. The machinery for this work was based upon a structure in existence before the war as, in 1938, the Trade Union Congress had been asked by the Minister of Labor, Ernest Brown, to cooperate in the construction of a Schedule of Reserved Occupations. This Schedule, issued in January 1939, became the basis for mobilization of men and for their distribution between the forces and factories of the nation.

The Schedule of Reserved Occupations, theoretically also the basis for reservation in the United States, has been revised from time to time to permit the location of additional numbers of men and to provide for their most satisfactory employment. Up to April 1941 it was based entirely on age and occupation. At the present time, however, the governing principle is that men of military age are reserved only if work on which they are engaged is of national importance and if they are indispensable to it. In many occupations two ages are maintained, the first age for men doing essential work for the war effort, the second, higher age for men doing non-essential work in some occupation. The gap caused in industrial ranks by this process is met by the simultaneous registration of men over military age and of women. Month by month, during 1942, the Schedule of Reserved Occupations will be aban-

doned and individual reservation will be applied. Additional workers will be secured for war plants from the ranks of married women, and by the release of men and women engaged in non-essential industrial activity, the retail trades and the service occupations.

Ernest Bevin organized a Labor Supply Board which consisted of two industrialists and two trade unionists, of which he became Chairman, to locate skilled workers for vital industries. He devised the system of organizing, in large industrial centers, Labor Supply Committees with representatives of at least one trade union and one employer working on a full-time basis. The objectives of the Committees included the transfer of labor to essential industries and the supervision of the billeting and health of workers. Four hundred Labor Supply Officers, chosen from industries and trade unions, were selected to examine labor requirements in their districts and to ascertain that workers were used in the most advantageous manner. In order that the complete mobility of labor could be brought under control, it became an offense for an employer in coal mining, agriculture, forestry, horticulture, civil engineering and the building industries to employ workmen except through an Employment Exchange or by an approved trade union arrangement. This procedure enabled the Minister of Labor to maintain close contact with skilled workers and to prevent careless waste of vital labor resources. Memoranda stating trade practices and departures therefrom were filed by employers, employers' groups, trade unions and officers of the Ministry of Labor in the office of the Ministry. Employers were required to follow terms and conditions of employment "not less favorable than those which have been settled by the machinery of negotiation or arbitration."

A constant surveillance was maintained by the Ministry over industry and workers to prevent the promotion of non-essential production. In March 1941 a further reduction of manufacturing resources devoted to non-essential commodities, already described, was initiated with the purpose of releasing factory space, materials and workers to war and essential production. Manufacturing operations were concentrated in nucleus factories which had their

labor supplies reserved to them, while workers in satellite, or closed, plants were released to the dictates of the Minister of Labor.

The right of an employer to discharge a worker and of a worker to leave a job was strictly forbidden after June 1941. In general, these rights were subject to permission of the Minister with one week's notice regarded as the minimum of time for discharge. A forty-four hour week was guaranteed in certain industries, such as construction. Cases of absence, irresponsibility, and failure to comply with orders were subject to investigation by the Minister of Labor. In discussing the new regulations Mr. Bevin declared: "Many will last beyond the war becoming integral parts of industry. Workers who help these developments now, therefore, have the future in their hands."

In his approach to labor problems the Minister of Labor has emphasized repeatedly that voluntary cooperation of workers would be sought by the Government rather than the procurement of their services by force or coercion. In the pursuit of this policy it appears, in retrospect, that valuable time was lost between January 1941 and late summer of that year. Industrial registration by age groups and the provision that, if a firm did not handle its employee problems to the satisfaction of the Government, a personnel controller would be appointed for it, both plans initiated by him, have served to eliminate weaknesses in the use of labor which had resulted from the voluntary approach. In October 1941 mobilization of manpower, which had been on a group classification basis, was shifted to an individual basis with each person judged for the job he was to fill. Former miners, between the ages of 20 and 60, who had been employed in the mining industry for six months or more at any time since January 1, 1935, were asked to return to work, and compulsory transfer of farm labor was put into effect.

By the Fall of 1941 the mobilization of labor forces had reached a critical stage.<sup>4</sup> Mr. Bevin urged men to work harder than ever, to give him six months of hard work for victory, and to put aside any petty differences that retarded production. Toward the end of November a motion was offered in the House of Commons as follows:

Maximum National Effort—That, in the opinion of this House, for the purpose of securing the maximum national effort in the conduct of the war and in production, the obligation for national service should be extended to include the resources of woman power and man power still available, and that the necessary legislation should be brought in forthwith.

Before this move conscription of men technically ran from 18 to 40 but no one was called up before his nineteenth birthday. By the 1941-42 plan men were called up from 18 to 50, although those over 40 were used for duty at home. For women the age limit of compulsory service ran from 20 to 51 although only unmarried women between 20 and 30 were liable for service. When this program started Britain had registered 17,175,000 men and women for war service, or about 36% of the population. Since the inception of war 6,400,000 men had been registered under the National Service Act and 3,100,000 women under the Employment Order. Under the latter Order, also, about 1,250,000 over-age and under-age men had been registered. In January 1942 boys of seventeen years were registered at Labor Exchanges for pre-service training and in April girls between 16 and 18 years were interviewed. A recent War Office notice requests boys from 14-15½ years of age (formerly 16-18), who wish education in auxiliary war industries, to file their applications. This training covers the trades of armorer, blacksmith, brick-layer-mason, carpenter, electrician, fitter, instrument mechanic, operator, radio mechanic, sheet metal worker and wireless mechanic.

In the Spring of 1942 the crisis of manpower had become even more acute than in the preceding months. Except for married women no resources of labor remained unused and it was apparent that the main task for the year was not to recruit workers but to guarantee that they were used in the best manner. It became the duty of the Ministry of Labor to ascertain that those not conscripted for war services were used only in essential manufacture. Conscription of women for the auxiliary services was not applied to married women and to wives of men in the three services. It is in the field of married women and women doing household work, totaling about 11,000,000 persons, however, that the largest reserves of industry can be found. The task of the Ministry re-

mains that of locating these reserves, recruiting them and caring for their welfare, their dependents and their conditions of work. Every available man is being moved closer to the fighting line, and his place in the forces, in industry or in business filled by an older man or a woman. On every hand labor shortages were evident and the situation became more aggravated with each month's elapse, until the point was reached where labor became the scarcest commodity of the war, such a scarce commodity, in fact, that employers generally met the demands of workers in order not to retard vital production. By the end of 1942 it has been estimated that the Armed Forces, men and women included as well as full-time A.R.P. workers, will number the same as at the end of the last war, but the figures of those employed on munitions production will be doubled. By September 1942 out of 33,000,000 Britons, between the ages of 14 and 65, more than 23,500,000 had been mobilized for full-time national service in some form. Two out of every three persons between the ages of 14 and 65 are now working full-time in the armed forces, civilian defense or war industries, and seven out of ten boys and girls, aged 14 to 17, are engaged in war work. These data provide some conception of the number of persons employed in the British war effort and of the necessity of curtailing every activity deemed non-essential to it. The United States intends to follow this procedure and to secure before the end of 1943, according to Donald Nelson, one-third of the American population (more than 44,000,000 persons) for direct war production or the military services. It must be remembered that, in Britain, in addition to pursuing other activities, all men between 16 and 65 serve in the Home Guard and aid in fire watching, a task that has proved a serious drain on their time, especially during the long, dark English Autumn and Winter.

In order to provide necessary labor forces further sacrifices were demanded of citizens. The number of persons making consumers' goods and rendering civilian services is to be further curtailed. As the total population of Britain is only 46,750,000 compared with Greater Germany's total of 83,000,000 and the 210,000,000 in occupied Europe it has become necessary that the efforts of every individual be devoted to promotion of the war effort. In solving this problem the Ministers of Labor and of Production work in



complete harmony, the former responsible for the supply of labor, the latter for determining the relative importance of the various demands for labor for war production.

#### ESSENTIAL WORK ORDER

One of the devices of securing and controlling vital resources of skilled workers was the Essential Work (General Provision) Order which was enacted in 1941. It controlled movements within an industry between employers and workers used on essential work by placing restrictions on dismissals and resignations of labor. Under its provisions, the Minister of Labor was empowered to schedule any undertaking as engaged in essential work if he was satisfied that such a measure was necessary for the "defense of the realm, the efficient prosecution of the war, the maintenance of supplies or of services essential to the life of the community." Workers could leave jobs and managements could discharge them, in a company scheduled under this Order, only after receipt of Ministerial permission. The Ministry of Labor's representatives became responsible for discipline within factories in case of reports, from employers, of workers' absenteeism, late arrival and insubordination. The Order, also, guaranteed minimum rates of pay and provided for the welfare of workers.

Before the Minister of Labor conferred upon a firm of certificate that it was scheduled as engaged in essential work it was required to satisfy him that:

1. The terms and conditions of employment of persons employed in the firm were not less favorable than the recognized terms and conditions for that industry. Recognized terms and conditions were provided for by the Conditions of Employment and National Arbitration Tribunal and prohibit strikes and lockouts.
2. Proper provision for the welfare of employees existed or was being made.
3. Where he believed the firm could make provision for the training of workers, adequate provision existed, or was being made, for such training.

At the present time a provisional entry of the name of a firm as a scheduled undertaking does not last longer than three months;

it may be renewed for further periods not exceeding this length of time and it may be cancelled by the Ministry at any time. The definition of an essential undertaking has been applied in its widest sense and, in time, probably will include all industries engaged in the war effort. At the present time it applies to the following industries: abrasives, bricks, cement and asbestos cement, manufacture of chemical raw materials, manufacture of electric cables, electricity supply, engineering, flour-milling, gas supply, gypsum mining, manufacture of plaster board, light alloys (wrought and foundry), manufacture of sand-fly netting, non-ferrous metals, wrought brass, copper and bronze, road transport (passenger), road haulage (goods), refractories, rubber and bronze products, scrap metal, home-produced timber and water supply. Similar orders have been made for shipbuilding, ship repairing, the merchant navy, and the mining industry.

After a firm's name has been entered as a scheduled undertaking and after it has been granted a certificate the following provisions apply to its operations:

*Restriction on Dismissal of Employees:* The scheduled firm may not terminate (except for serious misconduct) the employment of any person; it may not lend an employee to some other firm (except in case of emergency for not more than 14 days) unless permission has been received in writing from a national service officer of the Ministry of Labor.

*Employee Movement:* A person employed may not leave his employment except with permission of a national service officer. Application must be made by letter to a Local Labor Exchange with reasons stated for the application.

*Minimum Notice of Dismissal or Leaving of Work:* If permission to leave or to terminate employment is given, not less than one week's notice, or any longer notice required by the terms of employment, on either side must be given by the employee, or by the firm, as the case may be. This rule, however, does not apply to a situation in which the person employed is dismissed for serious misconduct. It applies even if the contract of service would have justified dismissal on, say, one hour's notice.

*Guaranteed and Minimum Wages:* Without affecting any terms and conditions of employment more favorable to employees, the firm that has been scheduled must pay to every employee at least the

weekly "normal wage" for a person paid on a time-rate basis, and the daily "normal wage" for a person paid on a time-rate basis, and the daily "normal wage" for a person employed on a piece-work basis. These wages are payable only if the employee is during normal working hours capable of and available for work, and willing to do any work, not his usual work, which he can reasonably be asked to do, whenever his usual work is not available to him. Normal working hours have been defined as the number of hours, exclusive of overtime, ordinarily worked in the firm in a day, or in a week, by the grade or class of persons to which the employee belongs. The normal wage may be calculated either by reference to the time rate applicable to the employee concerned, and to the normal working hours on or during a day or a week as the case may be; or where for any reason the wage cannot be calculated in the last-mentioned manner, by reference to the time-rate applicable to the members of the same grade or class as the employee concerned, who are employed in the same firm or in the same district as that employee and by reference to the normal working hours on or during a day or a week of such persons; or, if there is no person so employed, to members of the same grade or class in the same class of employee in the same district. Wages are payable, even if the employer has no work, temporarily, available for his employee.

*Application to National Service Officer for Permission to Leave Work or to Dismiss:* An application of this nature must be in writing and must state the grounds upon which it is based. The officer must, if it be practicable, either grant or refuse his permission within 7 days after receiving the application.

*Appeals:* A firm, subject to the Essential Work Order, or any person who has made an application to a national service officer, or a person who has been dismissed from his employment on the ground that he has been guilty of serious misconduct may, within 14 days of the giving or refusal of such permission by a national service officer, or of such dismissal (as the case may be) request the officer to submit the case to a Local Appeal Board. This officer will then immediately submit the matter to the Board, the Board making such recommendation to him as it thinks fit, and so far as is practicable within the following 7 days. Local Appeal Boards sit for districts to be decided by the Minister of Labor, and consist of one member chosen to represent employers and one to represent workers, with a Chairman appointed by the Minister. District panels of persons chosen to represent employers and workers have been consti-

tuted by the Minister and the members of the Local Appeal Boards are chosen from these panels. A person may not be represented before a Board by a solicitor or barrister, but may appear in person or by trade union representative, or by a relative or friend (even if he is a barrister or solicitor). A witness may be called if the Board agrees. If the person appealing does not attend the appeal may proceed without him. The traveling expenses to place of appeal are paid by the Ministry. The national service officer may, but is not required to, act on the recommendation of the Board, and may cancel any permission already given, or grant or refuse to grant any permission, or direct any person who has left his employment to return to it, or direct the reinstatement of any person who has been dismissed under any permission which has been cancelled or on the ground of serious misconduct if the Board is of the opinion that the dismissal was not justified on that ground. Or he may give the direction to do other work.

*Suspension from Work:* If an employer suspends a worker in accordance with his conditions of service for a period not exceeding 3 days, the worker will not be entitled to the guaranteed minimum wage for the days in which he is suspended unless he appeals to the Local Appeal Board within 3 days of the beginning of the suspension, and either the Board is unanimously of the opinion that the suspension was unjustified, or, if the Board is not unanimous, the national service officer is of the opinion that the suspension was not justified. When the finding is in the favor of the worker he will receive the minimum guaranteed wage for the period of suspension. If against him, he will lose the minimum guaranteed wage for the 3 days but not for the rest of the week. He will be entitled, if a time worker, to a proportionate minimum wage for the days on which he works. As a piece-worker's minimum wage is calculated by the day, this procedure does not apply in his case.

*Absenteeism:* If any person who is employed in a scheduled firm absents himself from work without leave, or without reasonable excuse, or is persistently late for work, the employer may report such absence or lateness to a national service officer. This officer will give a copy of the employer's statement to the employee concerned. If, after further investigation, he considers that what the employer says is true and that the employee concerned is capable of performing work, he may order the employee to do his work. Directions may be given by the officer as to the method or manner of work, and the time at which, and during which, the employee

is to arrive at, remain at and finish work. There is a right of appeal within 14 days against such an order, as has been described, but the order of the officer remains in force until the appeal has been heard. *Penalties:* To do anything which is forbidden by the Essential Work Order, or to fail to obey the legal order of a national service officer, is punishable before Magistrates with a fine of not more than £100 or imprisonment up to 3 months or both; or before a Higher Court with imprisonment up to 2 years or a fine up to £500 or both.

The Essential Work Order represents the greatest labor measure enacted in Britain during the war, and it has not only guaranteed a minimum weekly wage to all workers in vital industries but has eliminated the problem of casual labor and chronic unemployment in these fields. The Order, however, does not change regular bargaining machinery in operation in certain industries between employers and workers, and it does not freeze wages or hours, but it does prevent free dismissal of workers by employers and stoppages of work by workers by requiring both parties to file appeals with special arbitration tribunals. Trade union leaders view this Order as a marked advance in the attainment of rights of workers, and they hope the measure will continue after the war because it affords security of work to large sections of the population without depriving workers of the rights of collective bargaining. Not a single criticism, on the part of management or labor, has been made against the Order during its operation. Its provisions have been studied by the U. S. War Manpower Commission for incorporation in the American labor conscription measure, now under consideration, to solve the problem of serious labor shortages by requiring employers to hire workers and employees to obtain positions through a central agency, to control the use of labor, and to require employees to remain on a certain job or to transfer to a new one.

#### LOST TIME

At the present time 8,000,000 British workers are covered by the Essential Work Order and their absenteeism has been curbed by its provisions. During the year 1940 the increase in overtime totaled 26,200 hours but the increase of sickness and absenteeism resulted in a loss of 23,800, 80% of the time increase being coun-

teracted by this loss. Willful absenteeism has been one of the chief causes of labor loss during the war. In some plants it has wasted as many man-hours of work as sickness. Wartime conditions outside the factory have increased this loss but over-maximum hours of work have had a decided effect. With the removal of the restriction on overtime work, which usually started at forty-eight hours, workers have secured whole days of work at overtime rates and with increased pay have been provided with the incentive of holidays and long week-ends. A recent report of the Industrial Health Research Board indicated that when the working hours rose over 55 or 60 per week the loss of time increased sharply and the per hour output decreased. This was due to actual loss of efficiency and damage to health, and to the fact that men, when worked longer hours, became bored and irritable, and felt that they were being imposed upon by their employers. The average working week in Britain has been reduced to 60-70 hours a week, an average (with overtime) of 56 hours compared with the average working week in the United States of less than 42.4 hours. If America duplicates the British working week it must increase working man-hours by nearly one-third.

The Industrial Health Research Board's report indicated that, during the year ending June 1941, labor wastage was high in some factories but low in others but that it was higher for women than for men. Factors contributing to a high rate of wastage included:

1. The rapid expansion of industry and the employment of many workers, especially women, who were not accustomed to factory life.
2. The employment of an increasing number of married women who found it difficult to combine factory work with home duties and family responsibilities.
3. The additional strain imposed by traveling long distances to and from work.
4. The effect of air-raids on home life and transportation, especially during the latter half of 1940.
5. The lack of suitable facilities for meals in some plants.
6. The inadequate supervision of new workers.

Labor waste was found to be due largely to the fact that workers left their jobs of their own accord as the number dismissed

was negligible. It was reduced after the adoption of the Essential Work Order although there has been some evidence that a few workers were successful in evading this Order. The Report drew the following conclusions:

1. Time lost by factory workers through sickness, injury and absence without permission, when undisturbed by extraneous factors, varied with the weekly hours of work. It was usually low when the hours were less than 60 per week, but increased as the hours rose to 75.
2. Over an extended period the weekly hours of work should generally not exceed 60 to 65 for men and 55 to 60 for women.
3. In all the groups the workers were stimulated to an increased output after the collapse of France, and although it was physiologically impossible to maintain the maximum level reached, output in nearly every case has since remained above the previous level.
4. The beneficial effects of a reduction in excessive hours of work, together with the inauguration of staggered holidays, were reflected in an increase in the rate of working afterwards.
5. Labor wastage varied considerably from one factory to another. Some of the conditions leading to a high rate were the employment of women unaccustomed to factory work, or married women whose domestic responsibilities prevented satisfactory adjustment to factory life; difficulties of shopping and getting suitable meals, and the problem of transport, were important in this connection.
6. Women, on the whole, lost more time than men.
7. When it is remembered that many workers lived far from the factories, and had to face air-raids when traveling to and from work; that some had lost their homes and had to sleep in improvised shelters; and that often they had to wait outside in the cold and rain because of inadequate transport arrangements, the time-keeping of the factory personnel studied deserves high praise.

Immediately after the debacle of Dunkirk, when munitions plants were operating seventy or seventy-five hours per week, there was no marked decrease in per hour output and no great increase in absenteeism, but as the long hours continued the losses began to be apparent. Absenteeism in ordnance factories rose from 10 to 15%. Requests for time off were frequent and in some instances workers made their own arrangements for rest. Inter-

views with managers and workers proved that the first phase of the emergency period, which had been carried forward under the impetus of patriotic zeal, had been weakened under the longer hours of continuous work. In July 1941 the Minister of Labor recognized the need of reduced hours of work and issued a statement on hours of employment and maximum output as follows:

Owing to the situation in this country following the collapse of France it was necessary to call upon all those engaged on war production to make an intensive effort, by working long hours, to speed up production to the utmost extent. It is still of vital importance to maintain war production at the maximum. It is of equal importance, if this end is to be achieved, to relieve the strain caused by long and continuous hours of work, and for this purpose an adjustment in the present long hours of work is essential. This is a matter which must be dealt with by firms in accordance with their particular circumstances, and not by a general order. In order to assist them, I have drawn up some notes for guidance—Hours of Work and Maximum Production—in consultation with the British Employers' Confederation and the T.U.C., and with the cooperation of the Supply Departments concerned.

The statement referred to the dangers of unduly long hours and to the necessity of maintaining output. It indicated that the optimum hours have proved to be about 55 or 56, and that there should be a reduction to this point with the aim of operating machinery as many hours as possible but not overworking men. Some sort of shift system was recommended, as well as ten minute breaks and the provision of suitable refreshment in each working period. A system of authorized holidays of from three to seven days was recommended and a more systematic time-keeping. At the moment when shorter working hours were established, however, the heavy raids started and these led to a loss of work as workers had to take time off to rehouse their families, their sleep was broken, their working time was interrupted by time spent in shelters, and hours were wasted getting the power of machines up after the raids stopped. Roof spotters eliminated some of this waste time and work was not stopped until planes were actually overhead. Poor transportation to factories, including shortages of gas, drivers and vehicles, led to additional wast-



ages which have been curtailed by the erection of hostels near factories to house war workers and by the system of staggered hours among larger factories.

During the process of increasing war output it has become evident that workers, who had never had any previous factory experience, had difficulty adapting themselves to regular hours and to subordination of other claims to their work. This was especially true in the case of women introduced in industry. To counteract this loss women workers have been permitted to take time off for marketing, for transporting their children to school and for household duties. Some companies have arranged with local stores for special shopping evenings after hours, community shopping clubs have been established in certain districts, and priority cards have been issued to factory workers to eliminate the necessity of their lining up for food purchases. A number of plants have set up day nurseries where women may leave their children during working hours. Factory canteens for men and women, open continuously during the day and night, have relieved women of many of their household duties. In one company barbers were installed in order that workers might have their hair cut, a process, formerly causing the loss of half a day, under the new plan reduced to 15 minutes.

The Works Committees, already described, have served to offset discouragement and boredom of workers on the job. Talks have been given in factories about the work and the uses to which the product is put. Experiments have been tried of visits of factory workers to battleships, tank units and military camps where they see the products of their work in action. Large charts have been displayed in many plants, with target lines of production on which weekly progress toward the target is marked. A competitive spirit has been encouraged between departments within plants, and between plants producing the same type of armament. Rest intervals, refreshment from mobile tea-carts, and musical interludes have aided in alleviating fatigue. These methods have proved particularly effective in automatic work.

Some companies have approached the problem of absenteeism directly by offering bonuses or badges for good attendance. One firm offered extra days off for good attendance. Another wrote

the names of persistent absentees on a board at the entrance of the plant. In case of continued absenteeism recourse may be made to a national service officer under the procedure already described in detail. As a whole, however, with the introduction of the three shift system and the reduction of working time to fifty or fifty-five hours per week the problem of absenteeism has been solved. In the case of miners it has been conquered by the enactment of a statutory limitation of 45 hours for all work within mines.

The Ministry of Supply has developed a Works Relations Organization with the aim of enabling workers to appreciate the results of their efforts. Under the plan, factories now receive details of successful actions in which their weapons were used. For example, if a trawler in the North Sea shoots down a Heinkel bomber the Ministry sends wires to the plants making the gun, the mounting, the shell, and the filling informing them of the action. Another scheme developed is that of inter-factory visits which enable workers doing a job remote from the finished product to see what happens in the final stages of production. In one ordnance factory recent success has come by the creation of a "brains trust" of experts who answer questions on factory problems. Managements have been encouraged to explain to their workers the causes of production delays in order to alleviate the feeling of frustration and suspicion. Five hundred speakers from the three fighting services have visited supply plants during the last six months explaining the use made of weapons produced. So far no awards have been made to workers with high production records but this plan is under consideration. The Minister of Labor, in April 1942, pointed out that while workers have responded magnificently to the war emergency they did this voluntarily and that there was "no sign of despondence, war-weariness or cracking; our only grouse is impatience to get on with the job." He also indicated that 80% efficiency had been attained in new plants with untrained labor in a period of 18 months—a record unparalleled in any other country.

#### DILUTION OF LABOR

The Labor Exchanges, established by Ernest Bevin, have served as clearing houses of essential workers by which labor has been

moved to positions for which it was best fitted. Various unions have been urged to suspend temporarily agreements protecting them from dilution, and to permit the introduction of semi-skilled and unskilled men and women for the duration of the war. They have received the Government's promise that, at the conclusion of hostilities, full reinstatement will be given to their pre-war standards.

Dilution was feared, however, by both skilled and semi-skilled workers because they believed that standards of labor would be seriously retarded. They remembered that dilution was one of the main causes of dissatisfaction in the last war. It was resisted at the beginning of this conflict by these two classes of workers, also, because it was suggested as a method of increasing the supply of workers at the very time that skilled men were still unemployed in large numbers and while workers were taken into the forces in capacities in which their skills were not utilized.

Certain productive areas, such as engineering, munitions, aircraft and tanks, had to be expanded rapidly by the introduction of large groups of skilled men, and semi-skilled and unskilled men and women. This necessitated the formulation of new agreements between employers and workers. On August 28, 1939, for example, the Amalgamated Engineering Union signed a revolutionary agreement with the Allied Employers' National Federation which permitted semi-skilled and unskilled workers to perform tasks customarily assigned to skilled men who had served apprenticeships. Some criticism was expressed as late as January 1941 that dilution had occurred too slowly and at least one Government Committee referred to it as retarding production and reducing the supply of skilled labor. The Third Report of the Committee on National Expenditure, read to the House of Commons in January 1941, stated that the chief obstacle to reduction of working hours was the shortage of skilled labor.<sup>5</sup> Efficiency, it pointed out, was cut down by the length of the working day, and it urged the wider use of the Ministry of Labor's compulsory powers to move workers to secure the maximum amount of dilution and the opening of additional factory training centers.

A number of voluntary agreements have been adopted by labor as the war has progressed. In October 1939 an historic agreement

was signed between the Minister of Labor, the National Council of Port Labor Employers, and the Transport and General Workers' Union, by which dock labor could be transferred from one section of the country to another in case of emergency. The cost of subsistence and traveling allowances were covered by the Government. In June of the next year four regions were set up and Regional Inspectors of Ports were appointed, with the authority of national service officers, to direct persons to perform any specified service and to transfer workers as required. Employers were compelled to belong to a Port Registration Scheme and to obtain their workers through it. Voluntary agreements, also, were concluded between the Ministry, the Shipbuilding Employers' Federation, the Amalgamated Engineering Union, and the Federation of Engineering and Shipbuilders' Trade Unions, under which workers in the shipbuilding and ship repairing industries could be transferred from locality to locality.

As age groups of men were requisitioned for military service women, in increasing numbers, were called up to fill their places. By the Spring of 1942 nearly 4,000,000 had been registered, one-fourth of whom had been drafted into factories. Employers were asked to accept two women for training on short shifts at machines where one fully trained worker would suffice. The Government paid a traveling allowance of 10s for a day's journey from home to job for all new industrial recruits, and paid them a 24s 6d "settling in" allowance for the first week of work during which no wages were received. Employers were asked to provide workers with their former jobs at the end of the war, and the difference in pay between what they were receiving before they left their original employment for war work and the wage of their new position.

In July 1940 Sir William Beveridge had been appointed Commissioner to investigate human resources available for the prosecution of the war. The purpose of his office was to secure the best mobilization of manpower, the most efficient distribution of available human power between the fighting forces and essential production. The second report of his Committee, published early in 1942, stressed the problem of industrial misfits and the use of

men with rare skill in Service duties which did not require that skill. It stated:

In order to obtain, without damaging repercussions, the skilled men they need, the Services must be economical, not only of skilled men, but of men without special skill, but of good physique. It is not justifiable in war for a fighting service to use fit men for clerical or menial work or for anything within the power of weaker men or women.

It urged the scrutiny of the use of all manpower in the Services as an "indispensable measure of war", pointing to the Army as the service that wasted manpower the most, particularly engineering skills. It stated that the primary claim on the services of engineers should be accorded to the section of the Forces, industry or organization which could best use their skill for the national effort. With this in mind the Beveridge Committee suggested two proposals to the War Office, both of which appear to have been shelved, first, the enlistment of men, not by corps, but in the Army as a single Service, to be received, examined and sorted at common centers and only to be sent to their definite corps when it was apparent that they were required and could be used; second, the establishment of a Corps of Mechanical Engineers so that, as in the Navy, engineers could be organized to secure, test, train and use engineers.

Another inquiry into the production of the war industries revealed that the output per worker had, by August 1941, reached the high level achieved after the fall of France but that "generally the average output per worker was considerably lower" than the maximum which might be expected. This conclusion was incorporated in the 21st Report of the Select Committee on National Expenditure, and the following recommendations were included in it:

1. Government Departments must take direct responsibility for ensuring that labor and materials are used to the best advantage.
2. The Industrial Health Research Board should work in closest cooperation with the production departments.

3. Departments after consultation with employers and employees should decide the maximum number of hours to be worked and give directions to contractors.
4. The Industrial Health Research Board should decide the best length of working week.
5. Working people should have one day's rest in seven.
6. Factories should be used twenty-four hours.
7. Revised piece rates should be given.
8. Workers should be transferred to other factories in case of need.
9. Managements should take workers into their confidence.
10. All large factories should maintain a central personnel department.
11. Men should be appointed to positions of authority because of their proven ability.
12. Disciplinary measures, under Essential Work Order, should be kept constantly under review.
13. Slackness should be eliminated.
14. Persistent offenders should be de-reserved and subject to military service.
15. Undertakings engaged on essential work should be scheduled without delay.
16. Publicity should be given to stoppages of work.

Various sections of the report were devoted to consideration of transport of workers, feeding canteens, lighting of factories, incentives to output and dilution of workers. Its emphasis was placed upon the fact that, with stricter rationing of labor resources, greater use of women workers and unskilled laborers had become necessary. This situation brought into prominence, as never before, the problem of organizing training programs for unskilled men and women who were needed in war and essential production.

#### TRAINING WORKERS

In February 1940 the report of the Ministry of Labor's program of a half year's retraining, available to all men over 18 years of age, except those within the 20-25 military age limit, indicated that programs were proceeding in 22 Ministry and local centers.<sup>6</sup> Instruction was concentrated upon draftsmanship, fitting and turning, instrument making, machine operating and welding. It

was estimated that 40,000 workers could be trained annually in these centers, but there was no compulsion exerted upon workers to attend classes.

Much of the training, especially of women, was accomplished in workshops and was handled by employers training persons for employment in their own factories. With these schemes the Ministry did not intervene. If employers had an excess training capacity, however, it was made available under the Ministry's agreement with the Amalgamated Engineering Union and employers' representatives. The operation of Government training centers was retarded by the serious shortage of machine tools and instructors. To increase the number of workers passing through the centers the training period was reduced first from six to three months and later, in some trades, to eight weeks. At the present time 39 Government Centers are operating with a capacity of 100,000 trainees a year. Many of them maintain three shift programs. Technical colleges, also, are training workers. In this way the criticism voiced in May 1940 that the training of semi-skilled machine operators was not being secured by mass methods was met.<sup>7</sup> Accompanying it was the Government plan to upgrade workers so that key operators could be reinforced by large groups of quickly trained workers. In October 1940 the Ministry of Labor presaged these developments by the statement that it would pay the direct cost of training, maintain all trainees, and make grants to craftsmen who were selected to act as instructors.<sup>8</sup>

The following scale of payment has been established in all training centers:

Boys under 19—receive 17-23s weekly and for each grade passed receive 2s weekly more. Also receive a free midday meal and, if training is not in the home city, lodgings, food and pocket money from 6-7s weekly.

Girls under 19—receive 15-21s and same allowances as boys.

Men 19 years—34s 6d weekly, rising 5s with each grade.

Men 20 years—receive 39s 6d, rising 5s with each grade.

Men 21 years and over—receive 60s 6d, rising 5s with each grade.

If these men are away from home they receive 3s 6d a night in addition.

Women 19 years—35s a week rising 3s with each grade.

Women 20 years—36s a week, rising 3s with each grade.

Women 21 and over—38s a week, rising 3s with each grade.

These women also receive a traveling allowance. Both men and women receive 4s weekly for the first child and 3s for each additional child dependent upon them.

The Ministry's Local Employment Exchanges served as channels through which workers were moved to jobs for which they were to be trained. Its inspectors guided industrial effort and ascertained that essential war industries were supplied with skilled employees. The procedure was put into effect whereby every skilled worker was used entirely on essential work and every artisan received training to the utmost of his capacity. Training of large numbers of women, aged 18 to 55, was started at Government centers. A determined effort was made to ascertain that non-essential production did not compete with essential industrial effort in the labor market, and that the most advantageous use was made of every man and woman. To secure these objectives numerous pieces of legislation had to be placed on the statute books.

#### EMERGENCY LEGISLATION

In the first two weeks of the war forty Acts were passed and many Orders were issued under them. Much of this legislation was of direct concern to labor as it was related to industry, conditions of work, and the health of employees. New powers were accorded the Minister of Labor as it became necessary for him to exercise greater regulation of workers. The Control of Employment Act, for example, passed soon after the declaration of war but inoperative until seven months thereafter, afforded him power to prevent one employer securing workers, by means of bribes and high wages, from another employer. The War Manpower Commission in America has attempted to curtail the pirating of workers and the War Labor Board has approved a wage regulation to prevent the pirating of workers by payment of higher wages for the same type of work, both moves representing the British approach to this problem and its application to conditions in the United States. The British Control of Employment Act, in addition, em-



powered the Minister of Labor to make an Order in any industry prohibiting employers from engaging workers, and workers seeking employment, except through its local office. No action under it, however, was taken of any importance until May 1940 when certain employers and trade associations requested that the Act be implemented to prevent competitive bidding by employers for workers in engineering and other skilled industries. Numerous amendments have been made under the original Act which have afforded both employers and workers, entering engagements or re-engagements, with additional protection.

Another legislative measure was the Emergency Powers Act of August 1939 which authorized the Government to take possession of, or control over, any property or undertaking but which forbade any form of industrial conscription. The following May the Emergency Powers (Defense) Bill, already referred to, was passed by Parliament with the support of the Labor Party. It empowered the Government for a period of two years to exercise drastic control over property and labor. In addition, it extended the Government's powers "to make such defense regulations requiring persons to place themselves, their services and their property at the disposal of His Majesty as appear to him to be necessary and expedient." It provided the Minister of Labor with the right "to direct any person in the United Kingdom to perform such services as may be specified, being services which that person is, in the opinion, of the Minister, capable of performing." Wages and conditions of service were to be fixed by him but he was to give due attention to the rates usually paid in an industry and in particular to agreed rates and conditions laid down by employers and trade unions.

Full powers, under the Act, to date have not been evoked by the Minister of Labor as he has continued to rely on voluntary cooperation to secure the desired ends. Great care has been exercised during the formation and enforcement of this Act and Orders emanating from it, with Parliament and the press acting as constant critics, in order that the preservation of individual rights might be reconciled with the demands which the war made on persons and property. Labor unions expressed the willingness of their members to sacrifice gains in hours, wages and conditions

of work secured in recent years, and they received the Government's assurance that trade union agreements would be honored as far as possible.

The unions had been concerned for some time about the rapid changes that were occurring in the legislative field to convert the nation's economy to a wartime basis. In May 1939 the formal recommendation had been made by the Special Conference of Trade Union Executives that a National Joint Advisory Council be set up to consider the relation between wages and prices, the cost of living, voluntary savings, and protection of industry from air raids. Five months later this Council was serving under the direction of the Minister of Labor, in an advisory capacity, providing impartial data on labor in the emergency.

Although the Council's powers were of an advisory nature only, the mode of its selection assured that its recommendations carried weight. The intention that it should not interfere with the affairs of any particular industry, that it should confine itself to general principles, and that it should deal with "matters in which employers and workers have a common interest" was followed, although the scope of its studies has broadened from time to time. It was composed of 15 representatives of the Trade Union Congress and 15 of the British Employers' Confederation, with the Minister of Labor serving as Chairman.

In June 1940 another emergency measure was passed, namely, the Undertakings (Restriction of Engagement) Order. It was designed to utilize skilled labor in the building and engineering trades to the best advantage by preventing the enticement of such workers from essential to non-essential work, and by centralizing and coordinating their employment. Under it, employers and workers in the building, civil engineering, contracting and general engineering industries were forbidden to offer or to seek engagement except through the local office of the Ministry of Labor. The provisions of this Order have been extended to agriculture and coal mining and, finally, to shipbuilding. Under it workers may not change their occupation but they are permitted to move within an industry.

The Registration for Employment Order, passed in March

1941, enabled a survey to be made of the available labor force in the country with a view to selecting workers who were likely to be needed by the war effort. After registration workers were required to attend a selection interview and, in certain instances, to change their employment. The first Order applied to men over twenty years of age and capable of work who had been engaged in shipbuilding or ship repairing for not less than a year at any period within the last fifteen years.

After the Schedule of Reserved Occupations was passed in April 1941 a new principle of protected work was introduced. In some occupations two ages were fixed, the age of reservation for the occupation and a lower age for men in such occupations who were engaged on work protected for its importance for the war effort. The Ministry of Labor compiled a register of protected establishments with the purpose of ensuring that every man of military age reserved from the fighting forces was not merely made available for essential work but was actually absorbed in that work. Occupations in which there was a double age of reservation included, for example, engine fitters who were protected at 23 and reserved at 35 from July 1941. The following establishments were afforded protected status:

1. Mining, metal manufacturing, shipbuilding and essential war industries.
2. Establishments wholly occupied on Government work and/or on work for exportation.
3. Road transport undertakings and establishments engaged mainly in the repair and upkeep of essential motor vehicles. In this case the Ministry of Transport guaranteed the essential nature of the work.
4. Building and construction. In this case the Ministry of Works and Buildings was consulted.
5. Groups fulfilling conditions prescribed by the Board of Trade for concentration of production.

The raising of the age of reservation released about 1,000,000 men from the period of the enactment of the Schedule of Reserved Occupations to the Autumn of 1941 to the fighting forces and to

the war industries. It has proved to be one of the most important measures enacted to control the nation's labor forces and to concentrate their maximum efficiency upon important work.

#### LABOR DISPUTES

In May 1940 a small consultative committee, composed of 7 representatives of the Trade Union Congress and 7 of the British Employers' Confederation, was formed to consider the problem of preventing trade disputes culminating in strikes and lockouts. Industrial disputes caused the loss, during 1940, of 940,000 working days, 227,000 workers being directly and 73,000 being indirectly affected by them. This contrasted with 1,360,000 days lost in the previous year and was the smallest loss of production, to that date, through trade disputes found in the statistics of the Ministry of Labor which have been maintained nearly fifty years.

During the first twenty-three months of war industrial disputes caused the loss of 2,000,000 working days while in the last two years of the World War they resulted in the loss of 12,000,000 days. In 1941, alone, stoppages totaled 1,267 and they involved the loss of 1,075,000 working days, stoppages amounting to only one day in twelve years per worker, compared with one day a year per worker in 1914. Prosecution had to be undertaken in only five instances. Duration of the 1941 stoppages was as follows: 621 for one day or less to two days; 498 for two to six days; 90 for one to two weeks; 37 for over two weeks; and 21 for an unknown period. Since May 1940 no major strike has occurred in Britain and the disputes which have arisen have been small, local, short-lived and frequently unauthorized by the unions. Because of the small number of strikes declared no anti-strike legislation has been enacted. The United States Government might well consider the methods followed by Britain in enlisting the services of labor and of controlling wild-cat strikes and jurisdictional disputes which have continued to climb in the former country to a point above those of the latter country.

The satisfactory handling of labor disputes in Britain is based upon the deliberations of the Congress and the Confederation which occurred early in the war. From them came a Government Order which required the complete operation of existing joint

arrangements in the settlement of disputes, and the organization of a National Arbitration Tribunal to which all disputes reported to the Ministry of Labor, and not settled by resort to other means, were to be referred. This Tribunal consisted of three appointed members and two other members, one representing employers and the other workers. The last two named were selected by the Minister from panels set up by him after consultation with the Congress and the Confederation. If no settlement of the dispute could be reached through existing machinery the Minister transferred the claim to the Tribunal within 21 days, with the Tribunal permitted 14 days for its deliberation and decision. Any settlement of the dispute reported to the Minister, if by agreement, decision or award, was binding on employers and workers, and no strike or lockout could occur unless the dispute was referred to the Minister and he failed to report it to the Tribunal within the time allowed.

The Minister of Labor expressed his conviction that workers would respond better to the demands of the nation if their services were solicited on a voluntary basis. This approach was illustrated by the actual operation of the Tribunal as an agency after voluntary effort to seek a settlement of an industrial difficulty had failed. In industries in which there was no previous provision for adjustment through a tribunal it was found that many trade unions and employers agreed to set up arbitration procedures of their own rather than to report disputes to the Minister of Labor for decision by the National Tribunal. The principles of self-government in industry and of fair wages were further supported by the requirement that all employers should observe terms and conditions of employment laid down in voluntary agreements or should follow a decision of joint bodies representing substantial proportions of employers and workers in the trades and districts concerned.

#### WAGE RATES

Wage changes during 1940, in industries for which statistics were maintained by the Ministry of Labor, but excluding agriculture, increased the full-time earnings of 7,902,000 workers by £2,148,000.<sup>9</sup> Agricultural wages rose in amounts ranging from 9s

to 17s per week. About 4,740,000 industrial workers had received wage increases during the last four months of 1939. During 1940 the cost of living index rose from 174 to 196. No attempt was made to establish Government control over wage rates although, in 1914, it was impossible for any industry to increase its wages, even if employers and workers were in favor of the change, without the approval of the Government. Ernest Bevin has stated his belief that the pre-war price fixing machinery should be maintained and supplemented by the National Tribunal, and that wages should be left to the good sense of workers' and employers' associations. Several publications, however, urged the Government to fix wages and to adopt a national wage policy, as a substitute for the bargaining system, with a limited number of wage categories which would be supplemented by family allowances.<sup>10</sup>

It was revealed recently that several attempts have been made by the Trade Union Congress, during the progress of the war, to reach an agreement with employers concerning the wage policy, but these efforts were not marked with success. At a private hearing before the National Tribunal in January 1941 40 unions, representing 1,250,000 workers, in the engineering and shipbuilding industries, requested a 10s weekly wage increase and an additional payment for piece work. The Tribunal approved an increase of 3s 6d in their war bonus but gave no concession to their demand to reinstate pre-1931 conditions of work, committing itself, at least partially, to the theory that permitting wage increases was against the national interest. In general questions of wage applications remain with the individual unions. Their General Council has no authority to control their activities in this matter and wage increases that have occurred during the war have depended, in the main, upon the strength of the various unions. During 1941 the minimum for agricultural workers was raised to 60s for the normal week compared with 34s 6d before the war, cotton operatives received an addition of 2½%, and engineers and shipbuilders were awarded a flat addition of 5s on their basic rate for all workers. There has been no general policy about wage increases and one industry after another has secured increments.

Some industries have used a pre-war formula based on the cost of living index to secure wage advances, in some flat-rate increases

have been granted, in others percentage increases. The general average of wages has risen from 100 at August 1939 to 126 at January 1942. The changes in wage rates to July 1942, as a percentage of August 1939, follow:<sup>11</sup>

Bricklayers	118	Local authorities	123
"    Laborers	123	Trams	124
Printers:		Lorry drivers	119
Compositors	113	Boots	121
Dock laborers	115	Confectionery	135
Engineers:		Tailoring	123
Fitters	120	Shirts	137
Laborers	126	Tobacco	123
Shipbuilders	129	Coal	158
Railwaymen	121	Agriculture	173
Cotton	135		
Wool	138	Weighted average	130

The Ministry of Labor made an inquiry into earnings in industry, excluding railways, coal and agriculture, in July 1941 on a basis comparable with earlier inquiries in July 1940 and October 1938. This yielded the following results as to average weekly earnings as percentages of earnings in October 1938:

<i>Date</i>	<i>Men</i>	<i>Boys Under 21</i>	<i>Women</i>	<i>Girls Under 18</i>	<i>All</i>
October 1938	100	100	100	109	100
July 1940	129	135	120	121	130
July 1941	133	161	135	135	142

The index of wage rates for the same group and the cost of living index follow:

<i>Date</i>	<i>Index of Wage Rates</i>	<i>Index of Cost of Living</i>
October 1938	100	100
July 1940	112	120
July 1941	119	128
January 1942	122	129
April 1942	126½	129
July 1942	130	129

The recent White Paper analyzing the sources of war finance contains the following estimates of personal incomes for the calendar years 1938, 1940 and 1941:

Item	1938	1940	1941	Increase %
	LMN	LMN	LMN	1938-1941
Rents, Profits and Interest	1,500	1,673	1,706	14
Salaries	1,081	1,176	1,216	13
Wages	1,790	2,484	3,021	69
Other Personal Income	277	263	264	-5
Total, before deductions of taxes	4,648	5,596	6,207	34

Earnings on the average have increased twice as fast as wage rates. Most of this difference was reached by July 1940 during the period when armament firms were extremely busy. Earnings of youths have risen more rapidly than those of adults because they have been doing men's work at men's wages.

The Ministry's data indicate that for 6,000,000 wage-earners average earnings for the middle of July 1941 were 42.3% higher than in the last week of October 1938 and 9% higher than in July 1940. To that date the official cost of living index had risen 29% above its pre-war level. Statistics do not cover Government employees, agricultural workers, shop assistants and clerks. They indicate that, when the entire year 1941 is compared with the entire year 1938, an increase of 69% in total wages can be derived. This increase results from four factors: increase of numbers employed in civil life which, on the basis of Employers' Contributions to the Unemployment Insurance Fund, may be calculated at 16%; increase of wage-rates 22%; gain of earnings on wages in principal industries which, from October 1938-July 1941, was 19%; increase in total payments to ranks in the military forces. The total increase of 69% may be accounted for almost entirely without reference to H.M. Forces. A comparison of 1941 with 1940 shows that wage-rates and civilian employment indices increased 9% and 13%, while the total wage bill, including the Forces, increased 22%. These data indicate that the excess of earnings over wage-rates was lower in 1941 than in 1940, and this may be explained by the fact that greater productive effort was expended in the Summer of 1940 than in 1941.

The total increase in wages for 1941 reached £2,080,000 with 8,036,000 workers affected. The wage increase in all industries for which information is available and estimated by the Ministry of Labor has been set at 7% for 1941 and 26.27% since the begin-



ning of war, with the rise in the cost of living, to the end of 1941, totaling 29%.<sup>12</sup> Earnings (including overtime) have increased by more than 30%.

Ministry of Labor statistics relate to full-time wage rates and do not include piece rates, overtime or short-time working. They follow:

<i>Period</i>	<i>Number of Workers</i>	<i>Amount of Increase</i>
1939 (four months)	4,750,000	£ 830,000
1940 (twelve months)	7,902,000	2,148,000
1941 (twelve months)	8,036,000	2,080,000

The most important recent increase in wage rates was that of 5s a week granted to the Engineers and Shipbuilders by the National Tribunal in December 1941. The workers concerned had received an increase of 3s 6d per week the preceding January but stated that, despite increased earnings, wages had not risen sufficiently to meet the increased cost of living and did not represent a wage commensurate with their craft. The awarded increase was only a third of what was demanded but it was felt that it would furnish impetus to new demands for wage increases in other industries. Of the 29% increase in the cost of living, referred to above, 1.77% was due to increases in taxes on sugar, tobacco, cigarettes and matches and the 3.18% increase was due to the purchase tax. Food increased 20%; working-class rents 1%; clothing 91%; fuel and light 26%; and other items 30%. In computing this index the cost of a number of items is combined in accordance with the relative importance of the items in working-class family expenditure prior to August 1914. No allowance is made for any changes in the standard of living since that date or for any difference in consumption due to rationing or scarcity since the inception of this war.

Detailed statistics of the average weekly earnings of work people in principal industries in July 1941 provide the following information:<sup>13</sup>

<i>Average Earnings July 1941</i>		<i>Percentage Increase</i>	
		<i>Over July 1940</i>	<i>Over October 1939</i>
Men—21 and over	99s 3d	11.5%	43%
Males—under 21	40s 7d	.....	57%
Women—21 and over	44s 4d	13.9%	36%
Females—under 21	25s 2d	.....	35%
Average for all workers	75s 5d	.....	42%

The Ministry of Labor's investigation of worker's earnings in sixteen industrial groups, covering the period from October 1938 to January 1942, 56,200 companies and 6,000,000 workers, provides the following data:

<i>Date</i>	<i>Average Weekly Earnings</i>			
	<i>Men</i>	<i>Boys</i>	<i>Women</i>	<i>Girls</i>
	<i>(21 years and over)</i>	<i>(under 21 years)</i>	<i>(18 years and over)</i>	<i>(under 18 years)</i>
October 1938	69s	26s 1d	32s 6d	18s 6d
July 1940	89s	35s 1d	38s 11d	22s 4d
July 1941	99s 5d	41s 11d	43s 11d	25s
January 1942	102s	42s 6d	47s 6d	26s 10d

Between these two dates October 1938 and January 1942 average weekly earnings of men rose by nearly 50% while the Ministry's index of the cost of living advanced by less than 30%.

Wide variation in earnings apply to individual industries due, partly, to the differences in the proportion of men, women and young people engaged in them and to the fact that the figure given for each industry covers all classes of manual wage-earners in that field. A low figure for any particular industry may indicate a high proportion of unskilled labor in it, and a low rate for skilled workers. Women, as a whole, received less than half in average earnings than those received by men, and they lacked the incentive to acquire skill for more important tasks.<sup>14</sup> In cases where trade unions include both men and women members it is more usual for women to receive a man's wage for a man's job than in those industries where men's unions have opposed the admission of women. In the field of transportation the gap between the earnings of the two sexes is narrower than elsewhere while in engineering it is very wide. The per cent increases in earnings, covering 95 industries for the period 1938 to 1942, for men, youths, women, girls and all employees are shown in the following table:

	<i>Men</i>	<i>Youths</i>	<i>Women</i>	<i>Girls</i>	<i>All</i>
Quartile	31	36	26	33	29
Median	38	49	35	44	34
Quartile	47	62	48	52	42

For men the smallest percentages were in printing 13, tailoring 16 and tobacco 17; for youths in tobacco 5, chocolate making 13; for women tailoring 4, dyeing and cleaning 17; for girls in tailoring 15, drink industries 18.

The fear of inflation, because of the Government's lack of an established wage policy, has been mitigated somewhat by the increase, in April 1941, in income tax to 10s in the pound. Nearly 4,000,000 additional citizens have been brought under taxation through the reduction of personal and earned income allowances. Large contributions, for the purchase of war bonds, have been made by workers and the British Employers' Confederation has pledged its word that these voluntary savings will not be used against workers in future wage negotiations.

The policy of the Government relative to further increases of wage rates was indicated by the White Paper published in July 1941.<sup>15</sup> It summarized the main methods of preventing inflation by means of additional direct taxes, rationing and price control, and referred to the traditional methods employed by principal industries to regulate wages through their joint voluntary machinery for wage negotiation which had been continued in the war subject to the Conditions of Employment and the National Arbitration Order. It was stated that the Government wished to prevent the cost of living rising to more than 125-130% above the pre-war level. To accomplish this aim food production had been subsidized, and controls had been placed over the prices of food, clothing, transport, utilities and articles in common use. The policy, as a whole, was successful in stabilizing the cost of living, and today price control, with the assistance of large Government subsidies in the case of foodstuffs, covers the main items in the household budget, and rationing of canned foods and clothing ensures the reasonable distribution of all supplies available.

The White Paper, while taking into consideration the fact that increases in wages had to that time been reasonable and that the existing joint machinery for wage negotiations had operated successfully, emphasized that:

The policy of price stabilization will be made impossible and increases of wage rates will defeat their own object unless such in-

creases are regulated in a manner that makes it possible to keep prices and inflationary tendencies under control. . . . Increases in wages would not make more goods available, but would merely tend to send up prices and begin the vicious spiral of inflation. It is the duty of both sides in industry to consider together all possible means of preventing the rise in cost of production, and so to obviate the rise of prices which is the initial step in the inflationary process. The maintenance of wages and employers' remuneration at a reasonable level should be achieved as far as possible by improvement in the efficiency of production by the joint efforts of employers and work people. . . . If there were to be further increases in the cost of living this would need to be taken into account, but it is the object of the policy of price stabilization to prevent such increases from arising, or at least to keep them within small dimensions.

The Trade Union Congress, however, did not accept the viewpoint that wages should be stabilized. In a statement issued in reply to the White Paper the unions maintained that it was unfair to make further increases in wages dependent entirely on increased output. It drew attention to the development which had occurred in the process of controlling profits, stimulating increased saving, stabilizing the prices of food and other commodities, and rationing, and it argued that inflation could be avoided in this manner without artificially controlling the rise of wages. However, it has become more apparent with the lengthening of the war that the only reasons for increasing earnings should be for vital work and higher output, and to attract new recruits from unessential employment. It is evident that if an effective wage policy had been introduced by the Government in the early period of the war wage rates would have been frozen in non-essential and finally in essential industries, and earnings of workers would have been permitted to rise, by piece rates, temporary war bonuses, overtime pay and other additions, in the essential industries at points where incentives to attract more workers and to increase output were considered necessary. As the months of war elapsed, however, no effective control of wages was proposed by the Government.

In the absence of a national wage policy the trend of wage

rates in various industries since the outbreak of war, in the main, has been determined by bargaining power. But actual weekly earnings have been greatly affected by increases in hours of work and by extension of systems of payment by results. Wage control has remained a pressing problem as it has included inequalities of pay between various industries and between industry and the armed forces. Wage increases granted to coal miners and claims of engineers for higher wages, during 1942, emphasized the imperative need for a national wage policy to end the haphazard and uneven upward movement of payments during the war. Bowley's index of weekly wage rates, based on 1924 as 100, rose from 106 at August 1939, to 121 at December 1940, to 132 $\frac{3}{4}$  at December 1941, to 134 at April 1942. The industries affected by this trend, in general, were either those with unions which exercised greatest bargaining power or those which escaped Government control for the longest period of time. Each wage increase has led to another, and the Government's policy that wage rates should not be raised more rapidly than the cost of living and that the cost of living should be stabilized has not proved entirely successful.

Although a determined effort was made to curtail excess purchasing power, through taxation, rationing and other measures, the wage problem remains in a very unsatisfactory position. Each union has remained at liberty to bargain and a national wage policy, directed by the Government and agreed to by the Trade Union Congress, has not been attained. Preferably such a policy, in the opinion of the *Economist*, should incorporate the premises that all wartime wage increases, except those designed to remove real hardship, should be extended to provide an extra margin of incentive to additional war outputs, they should remove all anomalies between skilled and unskilled workers which have proved obstacles to the war effort, they should restrain all indiscriminate increases in earnings and, in combination, they should introduce high incentive bonuses for war production, enforce savings and prevent anti-social pressures on unrationed goods and services. The British wage policy has been studied by American labor authorities in their effort to stabilize wages and salaries through the

joint efforts of the Office of Economic Stabilization and the War Labor Board.

#### UNEMPLOYMENT

In 1938 about 22,020,000 persons were employed in Britain, 1,500,000 men and 2,700,000 women registered at Labor Exchanges were unemployed, and 360,000 men were serving in the military forces. At the end of that year 289,000 men represented the hard core of unemployment, or those individuals who had been unemployed for five years or longer.

During the first three months of war no approximation of full employment was reached, industrial activity declined, and any improvement in the employment situation could be attributed to military conscription. Trades, such as wallpaper, dress, millinery, printing and book binding, laundry, musical instruments, tobacco, stationery and motor vehicles increased in the number of workers unemployed but unemployment was decreased in the artificial silk spinning, woolen and worsted, railway carriages, hosiery, general and marine engineering, pig iron, glass, shipbuilding, iron ore, coke, cotton, shoes, hand tools, construction engineering, bolts, tools, miscellaneous dress, textile finishing, leather goods, glass bottle and steel smelting industries. The consumers' trades, as a whole, suffered the greatest unemployment.

In April 1940 the Government made a census of the skilled, semi-skilled and unskilled labor in vital machinery, automobile and airplane industries. By the middle of July of that year unemployed persons on registers totaled 766,835, a decrease of 43% over the number of the previous year; unemployed women workers, however, increased 3.5% to 225,777.<sup>16</sup> During August skilled engineers and workers in key industries were registered by the Ministry of Labor. By the middle of that month unemployment was 432,240 less than the year before and 1,256,000 lower than at any time since 1929. Returns on unemployment, from that month forward, were published only on a three month basis and no separate returns were submitted for industries as these data were considered of importance to the enemy in gauging the extent of the British war effort and the damage suffered by air raids.

By October 1940 the total number of unemployed persons, compared with the same month of the previous year, had decreased 48%.<sup>17</sup> In December the number dropped to 705,279, about half the total during the early months of the war. The Minister of Labor, in January 1941, completed a survey of men idle for one month or longer and started a similar survey of women. At the end of that month the armed forces, including the Home Guard, totaled 4,000,000 men and the number of persons registered as unemployed was 448,975, a 14% decrease over the previous month.<sup>18</sup> On May 12 the number unemployed was nearly 500,000 less than in the previous year and nearly 30,000 less than in the previous month. Unemployed persons reached such a low level the following month that stricter rationing of workers was started, a process which was hastened by telescoping of industry and limiting of supplies to producers.

On September 15, 1941 195,595 men and women, including men and boys over 14, were registered at Labor Exchanges as unemployed, the lowest number since 1929 and a drop of 70% over the total of the previous year. In February 1942 unemployed men and boys totaled 99,928, and women and girls numbered 62,247. By May a thirty-year low was reached with 55,060 men and 32,902 women registered as wholly unemployed. A large number of these individuals were temporarily unemployed, in the process of transfer to new positions, or unemployable. By that month there were approximately 250,000 part-time workers, mostly women, engaged in essential occupations. At August 17, 1942 the Ministry of Labor's statistics for registered unemployed persons were as follows:

<i>Classification</i>	<i>Wholly Unemployed</i>	<i>Temporarily Stopped</i>	<i>Normally in Casual Employment</i>
Men	55,693	1,744	2,541
Boys	15,615	22	7
Women	23,793	1,760	120
Girls	12,433	96	1
Totals	107,534	3,622	2,669

The following table shows the total unemployment, the wholly unemployed, the temporarily stopped and the casual workers

registered at Labor Exchanges, with 000's omitted, and indicates the expansion of the war effort from August 1939 to June 1942:

<i>Date</i>	<i>Wholly Unemployed</i>			<i>Temporarily Stopped</i>			<i>All Including Casuals</i>
	<i>Men</i>	<i>Women</i>	<i>Boys and Girls</i>	<i>Men</i>	<i>Women</i>	<i>Boys and Girls</i>	
Aug. 1939	730	168	70	129	76	7	1,232
Aug. 1940	304	235	74	75	72	7	799
Jan. 1941	237	222	62	90	57	6	696
Feb. 1941	200	197	51	68	43	4	581
Mar. 1941	160	165	39	41	32	3	458
Apr. 1941	140	133	46	41	32	3	411
May 1941	128	122	41	27	36	2	369
June 1941	110	102	31	18	28	2	302
July 1941	102	89	29	20	24	2	278
Aug. 1941	89	82	39	15	21	2	270
Sept. 1941	88	79	30	8	15	1	230
Oct. 1941	86	73	27	7	13	1	216
Nov. 1941	86	64	22	6	9	1	199
Dec. 1941	84	62	19	4	8	1	188
Jan. 1942	88	56	27	7	7	—	195
Feb. 1942(63)	89	61(49)	22(22)	10	6	1	188(160)
Mar. 1942(58)		(44)	(19)	4	4	—	163(135)
June 1942	54	29	17	2	2	—	132(106)

The Ministry of Labor now issues additional statistics which may be stated as follows for March 16, 1942:

	<i>Men</i>	<i>Women</i>
Wholly unemployed:		
Unfit*	25,973	1,709
Fit	67,437	54,209
	<hr/>	<hr/>
Temporarily stopped	93,410	55,918
Casual workers	4,167	4,069
	<hr/>	<hr/>
	5,627	253
	<hr/>	<hr/>
Total	103,204	60,240

\* Classified by interviewing panels as "unsuitable for ordinary (normal full-time) industrial employment." These are excluded from figures in brackets above.

The unemployment fund, from May 27, 1939 to Feb. 28, 1942, stated by weekly averages of £000's, with the first column cover-



ing expenditure on benefits and the second contributions by employees, was as follows stated by quarters ending at the dates given:

May 27, 1939	867	410	Nov. 30, 1940	444	448
Aug. 26, 1939	630	449	Feb. 22, 1941	388	474
Nov. 25, 1939	637	423	May 24, 1941	195	478
Feb. 24, 1940	825	403	Aug. 30, 1941	128	502
May 25, 1940	490	401	Nov. 29, 1941	87	477
Aug. 31, 1940	341	435	Feb. 28, 1942	89	492

The labor situation had become so critical by January 1942 that the plan of introducing women in industry had to be expanded. In one factory alone four hundred young women were removed from plants for war duties and they were replaced by the same number of immobile workers available in the area. The part-time use of women, also, was increased and every effort was made by the Ministry of Labor to secure young mobile workers, and to transfer workers to the point where their services were demanded and where they could be used to the best advantage.

#### WOMEN'S WAR WORK

In May 1940 the Allied Employers' National Federation signed an agreement with the Amalgamated Engineering Union permitting the introduction of women into industry.<sup>19</sup> This move marked the first lowering of the barriers to the employment of women for the war effort. Women, employed under this agreement, were considered to be temporarily engaged and after a training period they were to receive a basic wage and national bonus approximate to that of the men they replaced. The agreement specified that women were to receive equal pay for equal work; in this way the practices of the unions were protected and the wages of men conscripted for the military services were secured for the future.

The following table provides insight into the previous employment of women now engaged in war production. The youngest of the group stated below was 21; the oldest over 40. Only three of the number had more than an elementary education; the majority of them, however, had received specialized factory training. Their occupational history follows: •

<i>Previous Occupation</i>	<i>Period There</i>	<i>Present Occupation</i>	<i>Where Employed</i>
Circular framehand	10 years	Process worker	Royal ordn. plant
Machinist—boot and shoe	2½ "	Ablution room	" " "
Secretary	4 "	Shorthand typist	" " "
Barmaid	6 mos	Process worker	" " "
Hosiery—overlooker	3 yrs	" "	" " "
Winder (hosiery yarns)	14 mos	" "	" " "
Domestic	1 yr	" "	" " "
Typist	14 mos	" "	" " "
Grocery assistant	7 yrs	" "	" " "
Sorter and packer	7 "	" "	" " "
Hosiery cutter	2 "	Inspection	Electrical engin.
Toe puff maker	5 "	Power press hand	" "
Check clerk	14 "	Inspection	" "
Ironer and examiner	14 "	Coil winder	" "
Boot and shoe forewoman	8 "	Assembler	" "
Packing	1 yr	Assembler	" "
Canteen assistant	2 yrs	Coil winder	" "
Machinist	15 "	Assembler	" "
Hosiery mender	7 "	Grinder	" "
Hand embroideress	6½ "	Trainee	At Govt trg cen.
Hosiery cutter	6 mos	"	" " " "
Clerk	2 yrs	"	" " " "
Saleswoman	3½ yrs	Inspection	Elect commun.
Stockroom	3 mos	Coil winder	" "
Cotton winder	4 yrs	" "	" "
Invoice clerk	12 yrs	Optical lens	Instrument mkg.
Dress examiner	12 yrs	" "	" "
Household worker		" "	" "
Packing	6 mos	Machine	General engin.
Counterhand		"	" "
Assistant forewoman		"	" "
Shop assistant	9 yrs	Trainee	Electrical tests
Hairdresser		"	" "
Dressmaking	9 yrs	"	" "

Several of the people listed above are classed as "trainees," that is they are spending weeks or months qualifying for specific tasks in war industries.

For those women in Britain who were unqualified to take over men's jobs there was an initial training period of 32 weeks, during which pay started at customary women's rates and gradually increased to those of men employed in the same capacities. The equal pay provision has been extended to cover many fields, including that of transportation, but disparities in wages between men and women still exist in some fields of activity. This inequality applies to women in the armed services as well as in in-

dustry and it has been enhanced by the fact that the Government has created a lower rate of compensation for women who are injured in air raids than that for men, the amount received by the former being two-thirds that of the latter. Several discussions in Parliament have been directed to these discrepancies but, to date, nothing has been done, on a nationwide basis, to alleviate them. It is important that some step be taken to attack this problem as, under existing conditions, women pay the same income tax rates as men and yet do not receive the same benefits of wages and compensation against war hazards.

The Conditions of Employment Order of 1940 provided that records should be kept of departures from existing practices by employers' organizations and trade unions during the war, with the records open to inspection at all times. After the last war women were discharged in large numbers overnight but after the present conflict an attempt will be made to protect their interests. Representatives of women members of unions attend the General Council of the Trade Union Congress and the Minister of Labor is advised as to women's activities by a well-known woman engineer. Ernest Bevin has said that the Government will not legislate for the reinstatement of women in their pre-war employment or for compensation after the war ends. Instead it will accept social obligation for them at that time.

Trade unions resisted the introduction of women into industry before suitable unemployed men were absorbed. They fought against the tendency to exploit women and endeavored to secure for all women workers adequate wages, working hours and welfare conditions. In December 1941 the House of Commons approved the plan to conscript the nation's woman power for the war effort. During that year women who were unemployed, unoccupied, unpaid or part-time workers, and those who had volunteered for war work were interviewed by the Ministry of Labor, and assigned to jobs in view of their education, training and experience.<sup>20</sup>

Nearly 8,500,000 women have been registered and over 6,700,000 have been introduced in all types of occupations, releasing men formerly employed in them, and replacing men in the non-military aspects of the fighting services.<sup>21</sup> Additional women, mostly

housewives, are working on a part-time basis. As resources of manpower have been exhausted the services and efficiencies of women have been thrown into relief. In November 1941 the extension of the Undertakings (Restriction on Engagement) Order was announced to include all women between 20 and 30 years of age so that, at the present time, no woman in this age group can be employed except through an Employment Exchange, with the prospective employer required to prove that the operation, in which woman labor is to be used, is of national importance.

The Ministry of Labor has stated its policy of applying compulsory employment to unmarried women between the ages of 20 and 30 to fill vacancies in the Services and for civil defense and factory work. Whenever women have been asked to provide medical services for bombed families, to test spark-plugs, to make shells, or to run subways and buses, to take several diverse fields of their activities, their response has been wholehearted and immediate. Over 7,000,000 women have been registered for war work, covering the ages between 16 and 41, and nearly 4,000,000 women, between the ages of 20 and 30, have been conscripted for war work. Over 30% of the women interviewed by the Ministry of Labor have chosen industrial work while 40% have entered the Services in an auxiliary capacity. British women have expressed their appreciation for the methodical conscription of their services by the Ministry as this method has afforded them a definite avenue of contribution to the war effort. In turn, their services have been immortalized in a song which runs as follows:

'Tis the girl that makes the thing  
That holds the oil that oils the ring  
That works the thingumebor  
That's going to win the war.

The Ministry has begun to call up married women without children or household duties up to the age of 41 to take full or part-time employment. The United States labor officials have studied the methods followed for the use of women's services in the war and the procedures that should be utilized to secure the

best approach to this involved problem. Thousands of British women are working day and night in aircraft factories, and the maximum number eventually to be employed probably will number about 70% of the total number of workers employed. Recent registration of girls from 16 to 19 was undertaken but this was for purpose of record only. The married woman with family responsibilities, who to date has escaped conscription, remains the greatest potential source of labor power.

#### BENEFITS TO LABOR

Before the war workers had achieved good factory conditions; their health and welfare were cared for by factory inspectors and voluntary organizations in plants; yearly paid holidays had become the rule; legislation and agreements prohibited long hours and dangerous work. The Minister of Labor has stated that, if the State takes away freedom of labor during the war, it must guarantee in its place security to workers. He has been the motivating influence in securing additional benefits for workers.

At the present time general unemployment insurance affords a benefit of £1 a week for each man between 21 and 65 years of age who may, in addition, draw 10s per week for his wife, 4s for each of his first two children and 3s for each additional child. The number drawing relief has been decreased, the rates of benefit for agricultural workers have been raised, and provisions have been extended to office workers earning between £250 and £400 annually.

In May 1940, through the efforts of Ernest Bevin, a Factory and Welfare Advisory Board was set up, composed of representatives of unions, civil servants and specialists in industrial welfare, and organized with local committees to inform the Minister regarding housing, hospitalization, communal feeding and billeting of workers. Arthur Greenwood, as Minister in Charge of Reconstruction, considered the housing, nutrition and mobilization of labor, and the problem of employment after the war. Mr. Bevin, also, required the organization of medical and health services in factories, and the appointment of welfare officers. He organized

a Central Consultative Council on Industrial Welfare to coordinate the work of thirty national organizations for welfare outside factories. He possessed the power to require any industrialist employing more than 250 workers to make arrangements for part-time or whole-time doctors and nurses, and to billet workers with householders in the neighborhood. He established the procedure by which injury allowances were granted to workers injured in air raids and by which, through the Assistance Boards, payments were made for loss of tools. The former came under the Ministry of Pensions which granted immediate assistance, allowances for the needy, and pensions in case of prolonged disability.

Under the auspices of the Ministry of Labor, also, Child-Care Reserves were set up to care for children of employed women. The Health Insurance Scheme required that all persons between 14 and 65 be insured if they were employed in manual labor, or if they were engaged in non-manual labor but not earning more than £250 yearly. About 20,000,000 people are insured under the plan at the present time and they are entitled to free medical treatment and drugs, and to weekly cash payments during the period of their illness. The Contributory Pensions Scheme, initiated in 1926, covers all persons insured under the Health Scheme. Its scope has been broadened by the Old Age Pensions Act of 1940 and now provides pensions for insured men at 65 and their wives, for insured women at 60, and for widows of insured men; allowances for each child of school age are made. At 70 a non-contributory pension is paid to all insured persons. The Workmen's Compensation Acts of 1916 and 1925-31 require employers to pay their workers compensation for personal injury suffered by accidents arising out of and in the course of employment. New provisions provide for an increase in weekly payments of supplementary allowances to all those who received compensation under the former Acts.

In June 1941 Sir William Beveridge was appointed Chairman of an Interdepartmental Committee set up to consider the existing schemes of social insurance, such as health, unemployment, old age pensions and workmen's compensation, with the aim of coordinating them into a single, unified scheme. Also under con-

sideration were family allowances. The Trade Union Congress recently adopted these allowances as part of its social policy, reversing its policy for the first part of the world. The scheme is to be national in scope, non-contributory and not dependent on the means test.

One of the most pressing labor problems of the war has been that of housing. At the beginning of the war the Ministry's program was aimed at accommodating as many workers as possible in billets near factories. Householders could not refuse to take workers but they could appeal to a tribunal against compulsory billeting. Uniform rental rates were established although householders did not need to furnish meals. Later empty houses were reconditioned, and Government hostels were built, and turned over to workers. Although the Ministry of Labor is the authority responsible for ascertaining that workers are housed it works through other Ministries and Agencies. For example, the Ministry of Works and Buildings erects the hostels; the National Service Hostels Corp, Ltd., organized by the Ministry of Labor, manages them; the Ministry of Health supervises the 35 hostels for land workers; the Cooperative Holiday Assoc. manages two for the Ministry of Labor; the Y.W.C.A. controls hostels for women workers; and royal ordnance hostels are operated for the accommodation of workers in royal ordnance factories.

Most hostels are pre-fabricated and accommodate 50 persons. They are built by local architects so they are inconspicuous from the air. Each hostel unit is composed of three blocks, a dormitory block; a linen, drying and bath block; and a welfare block of dining rooms, recreation rooms, kitchen and infirmary. All essential furniture is supplied even including mirrors, bookcases, rugs and cleaning materials. In general, hostels follow a uniform pattern although in some cases larger or smaller units have been adopted by individual factories. In certain remote areas of the country large plants have been erected to manufacture munitions and the plan includes streets of hostels, shops, air raid shelters, concert halls, restaurants and movie theatres. The whole social program for workers that has emanated from the war has come from the Minister of Labor who declared recently:

You can have the cleverest engineers and planners in the world but unless you have someone who understands how to handle the human being you cannot get the desired results; and I do not limit this handling merely to the work of the psychologist or the efficiency expert. It covers the whole field of health, recreation, advice and care.

Through his endeavors the recognition of the importance of the individual in economic life has acquired new meaning, and many changes of value to the post-war period have been secured in the midst of this conflict.

#### LABOR'S ATTITUDE TOWARD THE WAR

The Trade Union Congresses held in 1940, 1941 and 1942 directed attention to the services which workers were rendering to their country. They indicated that the unions, working indirectly through Government representatives, in factories and in communities, were succeeding in smoothing out relations between employers and workers. Although the present emergency has called for the temporary suspension of trade union privileges, the additional training of men and women whose normal occupations were not in the field of war production, the reduction of reserved occupations, the registration of men and women, and the general dislocation of personal lives, all workers have carried forward the Government program and the policy of their employers.

The Minister of Labor has declared labor's stand against the aggressor nations on more than one occasion and his desire to retain, for workers, gains made before the war and those secured during its progress. The procurement of greater security for more people is one of the aims of his Party. The re-instatement of pre-war standards, and the attainment of social security for workers and their families form an important section of its post-war aims.<sup>22</sup>

During the progress of the war there has been close collaboration between the Government and labor. Leaders of the Labor Movement hold important posts in the Cabinet and each of the defense regions into which Britain has been divided. They are serving, in addition, on important advisory committees as can be seen from the following list:



<i>Official Body</i>	<i>Committee on Which Labor is Represented</i>
Ministry of Production	National Production Advisory Committee
"	Industrial Division of the Ministry of Production
"	Regional Boards
"	Capacity Clearing Centers
Ministry of Labor	Joint Advisory Council
"	Joint Consultative Committee
"	National Arbitration Tribunal
"	National Joint Council for Dock Labor
"	District Manpower Boards
Ministry of Supply	Raw material controls
"	Cotton Board
Board of Trade	Industrial and Export Council
"	Central Price Regulation Committee
"	17 Area Price Committees
"	Committee on Retail Trade
Ministry of Food	Commodity Advisory Committees
"	Food Control Committees
Ministry of War Transport	Shipping Advisory Council
"	Inland Transport War Council
"	Regional Transport Advisory Council
"	Central Canal Committee
"	Port Emergency Committees
Ministry of Agriculture	War Agricultural Executive Committees
Ministry of Works and Planning	Reconstructional Panel
Mines Department	Coal Production Council
"	District Production Committees

A few examples may provide an insight into Labor's superb spirit. Rather than cause a stoppage, Liverpool dockers tele-

graphed the Minister of Labor offering to work a day without pay after their activities had been held up because of complaints which had been submitted to him for judgment. South Wales miners reversed their decision against cutting coal on Sunday nights, and miners in one colliery, where twenty-one men had been killed, waived the tradition whereby a pit was closed for a day after a fatal accident. This spirit, this desire to win the war irrespective of hard work and inconvenience, is exemplified by the unions and their members. It has brought to Labor the acclaim throughout the nation which it justly deserves. Two noteworthy aspects of Labor's approach to war problems emerge after three years of the conflict: first, its desire to voluntarily curtail peacetime personal liberties; second, its effort to achieve the freedom of discussion of all wartime measures.

When it is remembered that, from July 1940 until May 1941, enemy planes were over Britain ninety days out of every hundred and all but thirty nights the contribution of labor receives its rightful recognition, for during this period production continued to climb upward. All the demands placed upon workers have been satisfied and, in addition, their unions have continued to plan the social objectives of the nation in cooperation with other countries in building the post-war world.

## CHAPTER V

### CONSCRIPTION OF MONEY

The main purpose of British war finance has been to transfer expenditures for consumers' goods to investment in the equipment for active warfare. From the inception of hostilities it was apparent that two methods of accomplishing this objective were open to the Government. First, it could have imposed taxes or raised forced loans in order to decrease the net incomes of citizens in an amount corresponding to the necessary increase in Government expenditures, or, second, it could have borrowed large sums of money from banks which, augmented to a much smaller degree by taxes, would have financed the war effort.

Its decision to follow the second course of action meant that natural accompaniments which appeared were expansions in the volume of bank deposits and in other forms of money. But offsetting factors to the effect of credit expansion upon prices appeared in the large stocks of unused materials and reserves of unemployed workers which the nation possessed in the early months of the war. The Government adopted the policy, at the conclusion of this initial period, of correlating the spending power of citizens with the supply of available consumers' goods on the market by levying taxes and encouraging the savings movement.

During the progress of the war it became apparent that the Government's financial plans were better conceived and executed than was its attack upon problems of production.<sup>1</sup> It acquainted the public with the enormous cost of modern warfare and with the fact that financial impossibility does not exist in connection with its operation. It provided, in addition, that a supply of cheap money, was made continuously available to the Treasury for war purposes by national savings campaigns, war weapons weeks, sales

of foreign assets, issues of defense and war bonds, Treasury deposits and bills, borrowing from banks and taxation, but it held the role of finance secondary to that of the provision of men and materials. No issue was decided upon financial grounds alone, and to ascertain that this premise was observed at all times the Prime Minister eliminated the Chancellor of the Exchequer from the War Cabinet in the Spring of 1942.

#### NATIONAL INCOME

The change from peace to war finance has been most apparent in the Budget. In peacetime the Government has had very little influence on the national economy, except to provide the necessary civilian facilities, but during the war it has become the controller, creating and spending the major portion of the national income.

Professor Pigou has estimated that the British national income rose by 25% in the first year of war but that the Government spent less than this percentage upon the war effort. By March 1942 the percentage had risen to sixty. In contrast the United States devoted 4% of the national income to war purposes in 1940, 14% in 1941, 36% in the first half of 1942, with an estimated 50-55% for the 1943 fiscal year. The *Economist* places the pre-war national income at £6,000,000,000 annually, that of 1941 at £8,120,000,000, and of 1942 at £9,000,000,000. The national income and expenditure in real terms are shown by the following table.<sup>2</sup>

#### NATIONAL INCOME AND EXPENDITURE IN REAL TERMS

(100 = net national income at factor cost in 1938)

	1938	4th Quarter 1940	1941-42
Net national income at factor cost	100	109½	112½
Consumption	77	69	63
Government expenditure	19	73½*	74*
Investment (or disinvestment)	4	-33*	-24½*

\* The 1940 figure of Government expenditure includes payment, out of capital assets, for many things which in 1941-42 were obtained on Lease-Lend terms. Factor cost is defined as "what it costs to produce . . . the national output of goods and services, over and above those required to maintain and replace the national capital." It excludes indirect taxes and rents that have to be added in before the output can be sold.

These data indicate that between 1938 and 1941-42 increased Government expenditure absorbed manpower and material re-

sources equal to 55% of the total, and was covered to the extent of  $12\frac{1}{2}\%$  by increased output,  $28\frac{1}{2}\%$  by demands on capital, and 14% by reduced consumption. It is apparent from them, also, that popular consumption should be curtailed even more drastically to the level, say, of one-tenth of the 1941-2 or to one-twentieth of the January 1942 rate. For example, in January 1942 prices, in money terms, consumption in 1942-3 might be four hundred million to five hundred million pounds less than in 1941-2. This reduction could be secured by taxation, savings or the direct physical limitations of rationing. Enforced shortages have assumed greater importance in recent months but they should be aided by increased savings to canalize the purchasing power they release, and by increased taxes to curtail the volume of money spent in black markets and on non-essentials. The latter course might involve the imposition of taxes on excess incomes to be set aside as a post-war credit, or of excise and purchase taxes.

The estimates of the net national income and expenditure in 1938, 1940 and 1941, according to details given in the Budget White Paper for April 1942, are shown on page 162 in £ million.

#### COST OF THE WAR

Although finance has been accorded secondary position in this war the necessity of securing money on a constantly expanding scale has continued for the purposes of financing the war effort, paying for the social services, subsidizing food and civilian necessities, and controlling any inflationary tendencies which may appear.

Three years of war cost the British Government £10,000,000,000 and, including the cost of the debt and the normal peacetime services, the total expenditure equalled £12,100,000,000. Of this total 40% was met by taxation. In contrast, the tax bill enacted by the United States in October 1942 did not match the British revenue percentage as it covered expenditures only to the extent of 30-35% by taxation. Total Parliamentary credits of £11,050,000,000 were granted during the first three years of war. Government expenditures on goods and services absorbed 54% of British resources in 1942 compared with 44% in 1940, while taxa-



tion absorbed 40% of the national income in 1942 and 33% in 1940. By August 1942 a deficit of £1,011,715,788 had been reached. Government expenditures have continued to rise as can be seen from the following summation:

<i>Date</i>	<i>Total War Expenditure Per Day</i>	<i>Fighting and Supply Services Per Day</i>
March 1940	£ 5,000,000	£ 4,000,000
July 1940	7,500,000	6,500,000
October 1940	9,000,000	7,500,000
February 1941	10,500,000	8,000,000
June 1941	10,250,000	8,000,000
October 1941	11,000,000	9,000,000
December 1941	11,750,000	9,000,000
March 1942	12,500,000	9,750,000
September 1942	12,750,000	10,500,000

The national expenditure from 1936-42 was as follows:

<i>Date</i>	<i>Defense Expenditure</i>	<i>Non-Defense Expenditure</i>	<i>Total</i>
1936-7	£ 186,072,000	£616,814,000	£ 802,886,000
1937-8	262,117,000	646,544,000	908,661,000
1938-9	400,239,000	667,810,000	1,068,049,000
1939-40	1,141,451,000	675,422,000	1,816,873,000
1940-41	3,200,000,000	644,288,000	3,884,288,000
1941-42	3,500,000,000	706,957,000	4,206,957,000

The national debt rose to £15,418,000,000 by mid-August 1942, three times the estimated national income, and equivalent to £334 for every man, woman and child in Britain.

It is interesting to note, in this connection, expenditures in the World War. For its first two years the daily rate of outlay stood at £5,000,000, of which £4,000,000 represented payments to maintain the fighting forces; for its last year the expenditures reached £10,000,000 and £8,000,000, respectively. For the year ended March 31, 1915, which included the first eight months of war, expenditures totaled only £561,000,000, but for the fiscal year 1917-18 they reached £2,696,000,000, although this cost included advances to Continental European Allies which have not been made in this war.

Total expenditures from September 3, 1939 to February 28, 1942 amounted to £9,686,688,000, of which £8,838,308,000 was spent on the fighting services. Revenue for the same period totaled £4,019,861,000, leaving a deficit of £5,666,861,000, and the total national debt reached £13,816,000,000. During these two and one-half years of war about 41.5% of the national expenditure was covered by revenue.

Weekly averages for revenue, expenditure and deficit follow:<sup>3</sup>

# GOVERNMENT REVENUE AND EXPENDITURE (£ MN)

<i>Weekly Averages</i>	<i>Revenue</i>	<i>Expenditure</i>		<i>Deficit</i>
		<i>Supply Services</i>	<i>Total</i>	
1939—Oct-Dec	15.9	35.6	41.8	24.9
1940—Jan-Mar	38.8	45.1	48.0	9.2
1940—Apr-June	14.5	47.1	53.4	38.9
1940—July-Sept	20.1	66.6	69.6	49.5
1940—Oct-Dec	22.8	77.0	83.5	60.7
1941—Jan 1-25	58.4	78.4	88.5	30.1
1941—Jan 26-Feb 22	55.1	77.6	80.2	25.1
1941—Feb 23-Mar 31	43.0	99.5	98.7	55.7
1941—Apr 1-26	24.8	75.6	83.5	58.7
1941—Apr 26-May 31	23.4	76.3	80.7	57.1
1941—Jun 1-30	25.4	75.3	84.1	58.7
1941—July 1-26	30.2	79.3	84.5	54.3
1941—July 27-Aug 30	36.4	85.8	89.2	52.8
1941—Aug 31-Sept 30	28.0	87.4	90.6	62.6
1941—Oct 1-25	35.1	82.9	91.4	56.3
1941—Oct 26-Nov 29	41.5	88.0	92.7	51.2
1941—Nov 30-Dec 31	33.1	94.5	102.9	69.8
1942—Jan 1-31	76.6	89.9	91.0	14.4
1942—Feb 1-28	71.7	94.8	99.5	27.8
1942—Mar 1-31	51.0	104.2	108.1	57.1
1942—Apr 1-25	39.4	89.9	99.4	60.0
1942—Apr 26-May 30	45.1	93.0	97.9	52.8
1942—May 31-June 30	42.5	93.0	101.8	59.3

As purchases under the Lease-Lend Act are excluded from these figures the apparent fall in expenditures in 1941 probably conceals a rise.

Revenue, expenditure and surplus or deficit, compiled from the Financial Statements, Statement of Revenue and Expenditure laid before the House by the Chancellor of the Exchequer when Opening the Budget, for the years ending March 31 from 1934 to 1943 follow:



<i>Year ending March</i>	<i>Total Ordinary Expenditure</i>	<i>Supply Services</i>	<i>Total Revenue</i>	<i>Ordinary Revenue Surplus or Deficit</i>
	£ Mn	£ Mn	£ Mn	£ Mn
1934	718.3	483.6	749.8	+ 31.5
1935	733.1	498.7	742.9	+ 9.8
1936	744.5	537.7	748.9	+ 4.4
1937	830.1	594.9	823.3	- 6.8
1938	898.1*	669.9*	872.6	- 25.5*
1938	833.2**	605.0**		+ 39.4**
1939	1054.8*	823.8*	927.3	- 127.5*
1939	926.7**	695.7**		+ 0.6**
1940	1809.7*	1570.0*	1049.2	- 760.5*
1940	1318.0**	1078.3**		- 268.8**
1941	3867.2	3637.1	1408.9	- 2458.3
1942	4775.7	4501.6	2074.1	- 2701.6
1943 (est)	5286.5	4944.2	2627.1	- 2659.4

\* Allowing for loan expenditure.

\*\* Excluding loan expenditure. Expenditure does not cover Lease-Lend aid now totaling about £100,000,000 per month.

For the fiscal year ended March 31, 1942 total ordinary revenue has been estimated at £1,786,360,000, compared with actual receipts of £2,074,957,310; total ordinary expenditures, excluding Lease-Lend materials, estimated at £4,960,185,000, reached £4,775,694,355, leaving a deficit of £2,701,637,045 which was covered by borrowing.<sup>4</sup> To meet 1941-42 Budget figures personal incomes were to be reduced to £5,050,000,000, personal expenditures curtailed to £3,980,000,000, and savings expected to rise to the extent of 75% compared with 1940.

The inflationary gap in the 1941-2 Budget, that is the difference between domestic expenditure, and receipts and borrowing from national savings, was placed at £500,000,000 which was to be filled in the amount of £125,000,000 in a full year by raising the standard rate of income tax to 10s, by £125,000,000 in a full year by reducing personal and earned income allowances, and by increasing voluntary savings. The Government announced its intention of spending £100,000,000 annually to stabilize essential foodstuffs, and to maintain shipping and transport charges at a minimum level at its expense. When the 1941-2 financial year closed it was found that, for the entire period September 1939 to April 1942, expenditures totaled £9,925,000,000 of which 43% was covered by revenue (taxation), 35% by loans, and 22% by floating debt (short-term loans from banks, etc.). All loans have not been provided out of

personal savings as banks have bought some and others have been taken in exchange for capital assets, such as, in the case of American securities surrendered to the Government.

In the last Budget, expenditure for 1942-3 was estimated at £5,286,479,000, in addition to Lease-Lend aid now totaling about £100,000,000 a month, and revenue was placed at £2,627,100,000, with the balance to be covered by loans and savings. In a recent week expenditures exceeded £108,000,000. In 1886 the father of the present Prime Minister was considered "unduly pessimistic" for predicting that one day in Britain a Budget of £100,000,000 per year would be reached. The cost of this war has far exceeded all estimates made but most experts declare that the peak of expenditures will be reached during 1942.

#### FINANCING THE WAR

In the first year of the war 50% of Government-expenditures was financed by taxation, 20% by sacrifice of foreign assets, and 30% by private and corporate savings plus realization of domestic assets. In the first half of the second year of war these percentages stood at 40, 24, and 36, respectively. The data supporting the percentages are shown below:<sup>5</sup>

	<i>First Year of War</i> <i>Sept. 1, 1939-</i> <i>Aug. 31, 1940</i>	<i>First Half of</i> <i>Second Year of War</i> <i>Sept. 1, 1940-</i> <i>Feb. 28, 1941</i>
Revenue	£1,148,000,000	£837,000,000
Extra—budgetary receipts of public departments	113,000,000	90,000,000
Overseas resources	542,000,000	479,000,000
Increase or decrease of tax accruals	140,000,000	—20,000,000
Savings of local authorities and institutions, and undistributed profits of companies	272,000,000	131,000,000
Residue, being reinvestment of sums realized from certain domestic capital assets and net current personal savings	382,000,000*	557,000,000*
Government expenditure	£2,597,000,000	£2,074,000,000

\* If calculated to the nearest £10,000,000 in the first year of war and for the first half of the second year the reinvestment and savings portions of the residue are as follows: Reinvestment of domestic capital assets £60,000,000 and £240,000,000, respectively. Net personal savings £320,000,000 for both periods.

The foregoing figure for savings is net, that is, after making good death duties and certain other expenses charged against capital. Gross personal savings have been estimated at £410,000,000 and £360,000,000, respectively. The reinvestment portion of the residue is composed of sums made available to the Treasury by reinvestment, by business firms and others, of cash proceeds arising from the net realization of privately owned domestic capital assets.

The financial year 1940-41 ended with a total expenditure of £3,884,288,000 against £1,408,867,097 revenue, leaving a deficit financed as follows: <sup>6</sup>

1. Long and Medium Term Borrowing:

*Large Lenders*

3% War Loan	£ 201,000,000
3% Convertible Loan	248,000,000
3% Savings Bonds	89,000,000
4½% National War Bonds	592,000,000
Other	35,000,000

1,165,000,000

Less Loans Repaid 455,000,000

710,000,000

*Small Lenders*

National Savings Certificates	171,000,000
3% Defense Bonds	190,000,000
3% Defense Loan issued to P.O. Savings Bank	76,000,000

Total Long and Medium Term Borrowing £1,147,000,000

2. Short Term Borrowing:

*Treasury Bills*

Tender } Tap }	£ 784,000,000
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*Treasury Deposits* 430,000,000

*Ways and Means Advances*

Bank of England	.....
Government Departments	112,000,000

Total Short Term Borrowing £1,326,000,000

Total Borrowing £2,473,000,000

A summary of the borrowing program of the Government from September 1939 to December 1941 follows:

## THE BRITISH WAR ECONOMY

	<i>Sept. 1939- Aug. 1940</i>	<i>Sept. 1940- Aug. 1941</i>	<i>Sept. 1941- Dec. 1941</i>	<i>Sept. 1939- Dec. 1941</i>
<i>Short Term</i>				
Treasury Bills	£ 760,000,000	£ 622,000,000	£ 51,000,000	£1,433,000,000
Treasury Deposits	30,000,000	485,000,000	296,000,000	811,000,000
Ways and Means Advances	13,000,000	154,000,000	37,000,000	204,000,000
Total	803,000,000	1,261,000,000	384,000,000	2,448,000,000
<i>Long and Medium Term</i>				
Large Lenders	488,000,000	1,042,000,000	448,000,000	1,978,000,000
Small Lenders:				
Natl Savings Cfts	135,000,000	185,000,000	67,000,000	387,000,000
3% Defense Bonds	147,000,000	181,000,000	49,000,000	377,000,000
3% Natl Def. Bonds	.....	122,000,000	.....	122,000,000
Total	282,000,000	488,000,000	116,000,000	886,000,000
<i>Other Items and Issues</i>				
	59,000,000	74,000,000	93,000,000	226,000,000
Grand Total	£1,632,000,000	£2,865,000,000	£1,041,000,000	£5,538,000,000

The Chancellor of the Exchequer has declared that, although the national accounts will always balance "it is only in so far as they are balanced otherwise than by the results of taxation, plus other Exchequer aids and resources, plus genuine savings, that the danger of inflation will arise." Stricter control of the growth of available purchasing power or still greater restriction of the physical possibilities of spending, perhaps both, appears as a necessity for this year. Incomes of wage-earners, rising rapidly during the last half of 1941, are well above their pre-war level. If this excess purchasing power created by the increase in wages is not placed under control there will need to be greater restrictions placed on spending through additional taxes, loans and rationing. John Maynard Keynes has estimated that the supply of commodities that could be bought in shops and spent on rent, light, fuel, travel, entertainment, etc. daily represented a value of £12,000,000 at current prices of December 1941 and that wage-earners re-

ceived £16,000,000 daily in personal incomes. On these incomes he advocated heavier taxation.

Certain inflationary movements have been apparent. Note circulation, for example, has continued to increase reaching, by the end of April 1942, £761,050,000 and by August £880,000,000, compared with £300,000,000 before the war. In 1940 the fiduciary issue was increased £50,000,000, in 1941 £150,000,000, and to August 1942 £100,000,000. The increase of £280,000,000 against transfer of the Bank's gold to the Government explains the fact that, while the total increase in fiduciary notes since the inception of war is £580,000,000, the increase actually in circulation is only £283,400,000. Since the Bank transferred its gold to the Treasury the fiduciary issue has been increased only to provide for expansion in actual circulation. The statement of the Bank of England for August 20, 1942 indicated that note circulation had decreased more than £4,000,000, and furnished the following information compared with the same week one and two years previous to August 20, 1942:

	1942	1941	1940
Reserve in banking dept., gold and notes	£ 51,134,000	£ 16,615,000	£ 21,578,000
Notes in circulation	830,334,000	665,375,046	609,585,244
Public deposits	8,236,000	35,616,909	14,544,970
Other deposits	192,431,000	151,251,689	172,052,508
Govt. securities	140,050,000	161,952,838	151,812,838
Other securities	27,463,000	26,283,258	31,259,611
Ratio of reserve	25.4	8.8	11.50

In January 1942 circulation declined to £740,688,000, lowest of this year. In 1941 circulation rose from £615,855,000 on January 2 to £751,726,000 at the end of that year. In the World War note circulation reached a peak of £64,900,000 in Armistice Week November 1918, but currency notes then outstanding totaled £293,790,000. Despite efforts to restrict public spending and to increase taxes circulation rose more than £145,000,000 in 1941-2. Bank deposits at the end of 1941 reached £220,000,000, the highest level in British banking history. The danger of inflation, in recent months, has been caused by the greatly increased volume of money in circulation. Any inflationary tendency will be reflected, in future months, not by a price rise but by an increasingly wide

extension of the system of rationing and other restrictions to the use of money.

If rationing were to be extended the force of unused purchasing power throughout the nation would be magnified. Unless the volume of savings was increased or forced loans were utilized inflation would be apparent in increased costs of unrationed goods, securities, land and property. Forced loans can continue to be raised from citizens by furnishing them with money which they are restricted from spending, but the question remains unanswered whether the offer of money, which can be spent only at the conclusion of the war, will constitute a sufficient inducement for additional personal effort. It is apparent that the Government will have to provide additional impetus to the national savings movement by limiting the supplies of consumers' goods and by encouraging the savings habit. If voluntary efforts on the part of citizens to curtail their personal consumption and to save their incomes cannot be secured on a constant, ever expanding level compulsion will have to be substituted in order that inflationary tendencies may be placed under control and the war financed by orthodox methods.

In spite of efforts to curtail consumption, retail sales for January 1942 were 4.1% higher than for the same month of the previous year, and black market sales of clothing, food, textiles, and patrol continued to absorb large amounts of money. The gap between currency known to be in circulation and amounts traceable to banks or savings, estimated at £3,000,000 was believed to be spent in these illegal markets. The point is rapidly approaching when the Government will ration all necessities, and all other commodities will be unobtainable on the market.

By February 1942 expenditures made by the Government had reached slightly over £5,000,000,000 a year, but war outlays constituted only £4,400,000,000 of this total. By the middle of August authorizations totaled £11,550,000,000, compared with £8,400,000,000 for the entire World War.

It has become more apparent with each month of the war that greater genuine savings and higher taxes would have to be called upon to reduce the inflationary gap, even to the point of exerting compulsion on citizens to save, in order that the excessive demand

for consumers' goods, compared with their supply, estimated at January 1942 to total 12%, could be controlled. One of the problems is to make savings more attractive, another to convince savers that the scarcity of the articles they desire is only temporary and that they will possess the same amount of purchasing power at the end of the war as they did when they curtailed their war-time spending. It is possible that some method may be devised by which the right to purchase consumers' goods, such as cars, radios and refrigerators, after the war, will be allotted to those individuals who contributed to the war effort or the savings movement.

As the greatest portion of taxes comes from earners of large and medium-sized incomes, and savings from earners of small and lower-medium incomes, the appeal should be directed to the latter group not only for their own benefit but because, cumulatively, they buoy up the demand for articles and provide additional impetus to price rises if their spending is permitted to proceed unabated. The problem remains for the Treasury to devise some means by which saving may be endowed with greater pleasure, closely aligned with patriotic causes, and implanted in the public's mind by positive methods to release deferred spending after the war ends.

One method of attaining the last-named objective has been proposed by one economist.<sup>7</sup> Under this plan a National Commercial Corporation would be formed, preferably by Act of Parliament, with a capital of, say, £10,000,000, offered in equal portions to industry, to the distributive trades, including cooperative societies, and to banks and commercial finance houses. It would sell to the public, on an installment plan, durable consumers' goods, at fixed prices, which would be delivered not later than 18 months after the war ended. It would start operations immediately and publish a catalogue of motor cars, motor and pedal cycles, musical instruments, gramophones, radios, refrigerators, furniture, electrical apparatus, household goods and cutlery. Goods would be offered at fixed prices, in no case higher than present prices, including purchase tax, and payments would be spread over a three-five year period, in equal monthly installments. The Corporation would make no profits but would cover

its expenses from contract fees. Installment money would be invested in Government securities during the war and would be used after its conclusion to finance manufacturers to the extent of, say, 75-80% of value of orders, at an interest rate not more than 1-1½% above the Bank Rate. Goods would be produced in Britain after the war but the right to substitute Empire and American goods would be reserved. All goods would be sold to private individuals and limited to a total of around £100,000,000.

#### VOLUNTARY SAVINGS

In no previous war has so much reliance been placed upon voluntary savings to reduce the inflationary gap between expenditure and revenue which would otherwise have been covered by the expansion of bank credit. Britain has been outstandingly successful in realizing goals set for voluntary savings campaigns.

Various factors have operated to promote popular savings. As Government expenditures have risen there has been an expansion in the volume of bank deposits, salaries, wages and overtime payments, and a stimulation of consumption. By means of direct and indirect taxes, allocation of raw materials, rationing of food and clothing, imposition of maximum production quotas in non-essential trades and concentration of production of consumers' goods industries the curtailment of personal consumption has been secured. As a direct result of this curtailment personal savings of citizens have increased, as is indicated by the amounts raised by small savings, that is by sales of National Savings Certificates and Defense Bonds, and the increase in balances in post office and trustee savings banks. The amounts raised in small savings are shown below:

<i>Quarters</i>	<i>1939</i>	<i>1940</i>	<i>1941</i>	<i>1942</i>
1st quarter	£25,000,000	£ 89,000,000	£161,000,000	£209,000,000
2nd quarter	19,000,000	125,000,000	176,000,000	Data not available
3rd quarter	12,000,000	129,000,000	132,000,000	Data not available
4th quarter	62,000,000	136,000,000	142,000,000	Data not available

Estimates of personal incomes, expenditure and savings in the years 1938, 1940 and 1941 are shown by the table on page 173, stated in £ million.

In 1940-1 the national savings campaign raised £1,426,000,000 by various Government loans and increased bank deposits, while



# ESTIMATES OF PERSONAL INCOMES, EXPENDITURE AND SAVINGS IN 1938, 1940 AND 1941

£ Million

## CONSCRIPTION OF MONEY

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Year ending—	Dec. 31st, 1938	Dec. 31st, 1940	Mar. 31st, 1941	June 30th, 1941	Sept. 30th, 1941	Dec. 31st, 1940	Dec. 31st, 1938	Year ending—	Dec. 31st, 1940	Mar. 31st, 1941	June 30th, 1941	Sept. 30th, 1941	Dec. 31st, 1941
1. Rent of land and buildings, profits and interest (including National Debt interest and interest accrued on National Savings Certificates) received by persons.....	1,500	1,673	1,692	1,702	1,702	1,706		9. Personal expenditure on consumption at cost of production.....	3,584	3,871	3,856	3,865	3,865
2. Salaries, and the pay and allowances (in cash and kind), of officers in H.M. Forces and Auxiliary Services.....	1,081	1,176	1,188	1,200	1,210	1,216		10. Excess of indirect taxes and rates specifically on consumption over subsidies	457	553	584	657	687
3. Wages, and the pay and allowances (in cash and kind), of other ranks in H.M. Forces and Auxiliary Services.....	1,790	2,484	2,643	2,773	2,893	3,021		11. Direct tax payments other than death duties, &c., and War Damage-Act Contributions and premiums met out of personal incomes.....	374	532	586	640	748
4. Pension payments.....	132	150	160	170	176	177		12. Death duties and stamps on the transfer of property	90	85	86	87	91
5. Payments in respect of unemployment and the relief of poverty.....	110	63	50	41	35	28		13. Excess of direct tax liabilities on personal incomes over payments.....	18	82	80	105	150
6. Health payments.....	35	35	33	33	32	32		14. Net personal savings after setting aside the excess of direct tax liabilities over payments.....	(125)	(473)	(594)	(659)	(665)
7. Other transfer payments.....		15	20	27	30	27		15. Personal expenditure on consumption, savings and direct taxes, &c.....	4,648	5,596	5,786	5,946	6,207
8. Personal incomes before deduction of direct taxes, &c.	4,648	5,596	5,786	5,946	6,078	6,207							
* National Debt interest and interest accrued on National Savings Certificates.	222	243	244	254	265	273							

the following year £1,943,000,000 was secured. At the end of 1938 11,000,000 active deposit accounts were maintained in post office savings banks, with an average balance of nearly £46 each. By August 1941 the number of accounts had risen to 14,500,000 and the average balance to £53. In trustee savings banks for the same periods the number of accounts were 2,420,000 and 2,850,000, respectively, and the average balances were £59 and £71, respectively.

Small savings raised from 1915-19 nearly £567,000,000 and from November 22, 1939 to Sept. 1, 1942 more than £4,200,000,000. Large savings produced, during the latter period, more than £1,060,000,000. The number of savings groups have increased from 4,000,000 members in the World War to 15,000,000 members in this conflict, indicative of the fact that the last war encouraged the habit of spending and this one that of saving. The National Savings Committee consists of members appointed by the Chancellor of the Exchequer, twelve elected representatives of local committees in the 12 regions into which the country has been divided, and six representatives of larger cities. In addition, a joint committee of the Trade Union Congress and of the National Savings Committee aid in coordinating the country in its saving effort and in organizing local committees and groups. Large buyers now subscribe on an average of £25,000,000 a week and small of £14,300,000. This subscription is 82% higher than the weekly average during the first week of the campaign.

The national need for savings has become imperative to prevent the inflationary gap widening. Superfluous spending on the part of civilians should be curtailed further to assure that it does not exert an adverse effect upon the war effort. What the Government controls cannot do self-discipline of citizens, who refuse to spend and who lend their money to the Government in one form or another, will accomplish. But if the voluntary effort does not continue unabated the Treasury will be called upon to assume surveillance of personal incomes from their inception, as wages and profits, to their accumulation in savings, to their culmination in Government expenditure. The Government has tried to reach small savers with National Savings Certificates and 3% Defense Bonds which are on continuous sale, limited as to amounts pur-

chasable by any investor, and non-negotiable but redeemable by the Treasury on the option of the holder.<sup>8</sup>

The Government reduced personal consumption by a combination of the following: imposition of direct and indirect taxes, allocation of raw materials, restriction of purchases of food and clothing, establishment of maximum production quotas in non-essential trades and concentration of consumers' goods industries. As a direct result of this policy the personal savings of citizens increased from 1938 to 1941 almost five-fold as can be seen from the following table compiled from data supplied by the Treasury:

	1938	1940	1941
	£Mn	£Mn	£Mn
Gross personal savings, including provision for accrued taxation*	233	640	909
Death duties, etc.	90	85	94
Net personal savings after provision for death duties, etc.	143	555	815
Accrued taxation**	18	82	150
Net personal savings after provision for accrued taxation	125	473	665

\* Excluding undistributed profits of businesses and institutions, except that the savings of farmers and the savings of non-profit-making bodies are included.

\*\* Excess of liabilities for direct taxes on personal incomes accrued during the year over payments of such taxes during the year.

The reduction in the volume of consumption in 1941 compared with 1938 probably lies between 15 and 20 per cent. The calculation of personal consumption at 1938, 1940 and 1941 is shown by the following table:

	1938	1940	1941
Personal expenditure on consumption at market prices	£4,041,000,000	£4,424,000,000	£4,550,000,000
Add, Subsidies	15,000,000	70,000,000	139,000,000
	4,056,000,000	4,494,000,000	4,689,000,000
Deduct, Indirect taxes on consumption	472,000,000	623,000,000	826,000,000
Personal consumption thus adjusted	£3,584,000,000	£3,871,000,000	£3,863,000,000

The economic origin of funds from which finance has been made available and the financial measures by which such funds have reached the Treasury for 1941, in the first instance, included; revenue 40.1%; net personal savings 17.5%; undistributed profits 4.6%; surplus in extra-budgetary funds 10.1%; domestic disinvestment 10.6%; overseas disinvestment 17.10%. For the latter they were as follows: revenue 40.1%; Government finance outside Budget 5.3%; small savings 12.9%; other long-term debt 21.9%; floating debt 19.8%.

To the first week in September 1941 small savers contributed £954,000,000 to the war savings campaign. Large investors, who make their purchases through banks, stockbrokers and others, with the usual brokerage and a minimum purchase of £100, made the following investments to the middle of December 1941:

National War Bonds, 1946-8, 2½%, £442,000,000 subscribed  
 Savings Bonds, 1955-65, 3%, £1,300,000,000 subscribed  
 National War Bonds, 1945-7, 2%, £494,000,000 subscribed  
 National War Bonds, 1949-51, 2½%, "on tap"  
 War Loan, 1955-59, 3%

For the first two years of the war large investors bought £1,800,000,000 of the issues although a large proportion of this figure represented business reserves which would have been invested in this manner and bank funds created by the Government's expansion of credit. Large sums of money, in addition, have been lent to the Government without interest. More than 250,000 savings groups have been organized throughout the country to ensure that contributions are made on a weekly average of £11-12. Most factories have active groups. A constant growth, quarter by quarter, has been evident both in small savings and in subscriptions to all forms of Government securities reaching 25% more than at the same period in 1940. The improvement in genuine savings, for the last quarter of 1941, as distinct from the transfer of investments, was much greater. The rate of small savings and the number of small savers has continued to increase, totaling £1,000,000,000 or £20 per head of the total population of the United Kingdom compared with £274,000,000 or £6 4s per

head during the period 1916-18. By March 1942 large and small savings had brought in £1,680,000,000 covering 67% of the deficit. Of the total money spent by the Government 45% is received in savings subscriptions.

Many novel methods have been devised to encourage people to save. War Weapons Weeks have proved especially popular with London raising £146,000,000 in March 1942. In that month pep talks were broadcast by war leaders and war heroes in front of the National Gallery. Representatives of the fighting services, both men and women, marched in patriotic parades. Every borough of every city throughout England was given a definite task to collect savings to build a warship which would bear its name. Announcements were posted in the various cities and towns indicating how much money was required to build a cruiser, destroyer, large minesweeper, motor torpedo boat, trawler, battleship, gun, plane or rifle so that each citizen could calculate what his contribution would buy. For the sum of £5,000 a plane could be purchased and named for the giver. The War Weapons Weeks, organized not to supplant but rather to supplement the savings group drive, were held in all towns and districts and on the average brought in £3-4 while London provided £21 per head. One of the most bombed districts in that city, Stepney, raised much more than its quota. Large contributions have been made by banks, insurance companies and members of the Stock Exchange, but as they have contributed chiefly their clients' savings, upon the latter's request, the sum may be considered true savings.

In the two years of war to September 30, 1941, £4,380,000,000 was raised by means other than revenue as follows: 21% by small savings; 33% by subscriptions to war loans; 26% by Treasury and deposits bills; and 17% by realizing gold and foreign exchange and borrowing certain balances. In spite of the high levels of taxation, 50%, and rises in the cost of living, 29% to March 1942, citizens have returned to the Government, through war savings, nearly one-tenth of the national income. As examples of the savings movement the following are submitted:

Newcastle-on-Tyne now has 1,116 savings groups representing one group for every 230 people.

Beaconsfield (Bucks) Parish Church Group, consisting of 36 members, raised £390 in three months, the cost of a small ambulance, a parachute and a rubber dinghy.

In two months the 240 villagers of Seagry, Wilts, saved £1,163.

Fifty-six bedridden children at an orthopaedic hospital school raised £1,308, an average weekly savings of £7.

In North Essington a Colliery District in County Durham raised £18,278 during a Summer Campaign.

Waldringfield, Suffolk, with a population of 220, raised £2,418 in its 3 months savings drive.

The savings group operated by a large electrical manufacturing company in the Midlands has quadrupled its savings in the last 12 months.

Forest Hall Senior School, Manchester, in a Winston Churchill Week collected £536.

The battle of the "damned noughts", as the Chancellor of the Exchequer has referred to war finance, continues unabated. And its success depends, more than in any previous war, upon the man in the street from whom are demanded high income and indirect taxes, curtailment of personal consumption to the level of bare subsistence, and saving of all income over this level. The policy has been followed during the war of maintaining war loans continuously "on tap", available for purchase and open in unspecified total amounts of the issue. This practice has been adopted, also, by the U. S. Treasury. Banks have been offered Treasury bills and they have, in addition, been asked to deposit specified sums weekly with the Government. The interest rate has been held to an average of 2%, with full rates of income and surtaxes applying thereto, reducing the net cost to the Government to under 1%.<sup>9</sup> This has been an improvement over the World War, when the tap method of financing was reserved for fairly short issues with the longest covering a period of ten years. A standard rate of interest of 5%, at that time, was reached with Treasury Bonds yielding 6%.

The area yet to be explored remains that of compulsory savings, which might be accomplished through some plan to extract amounts to be contributed at the source of income in the same manner as income tax payments now are made. Sums acquired

in this manner by the Government would draw reasonable interest and would be repayable after the war, at a time when they would not exercise deflationary effects. If the incidence of income tax on lower levels can be simplified and if every effective step is taken to eliminate the waste of citizens' money spent on unrationed goods and in black markets there should be additional gains made in the supply of funds available for Government loans. The task of paying for the war remains a non-fiscal problem. Rather it involves an economic and social organization designed and directed to enlist the powers of individuals scattered throughout the nation who, individually and collectively, independently of the Treasury, save and contribute to the war effort.

#### STOCK EXCHANGE ACTIVITY

A monopoly of savings and investments has been secured by the Treasury to prevent investment of new capital in civil production. This move has led to Parliamentary interest in the proportionate influence of the Treasury and the Bank of England in shaping the monetary policy of the war. The former, however, is not the only Government Department which has affected this policy as it has shared responsibility for the future of sterling with the Departments of Trade, Food, Agriculture, and Labor. As more and more activities have been performed by citizens, without reference to their monetary rewards, the Government has endeavored to maintain incomes and industrial life at the proper levels.

At the present time, under Treasury restrictions, it is not possible for citizens to transfer their business companies abroad, and foreign loans are prohibited. The price of all new issues of securities is fixed by the Government, the new capital market is closed, and any opportunities for speculation which arise are severely discouraged. Claims of the Government now take precedence over all other operations of the new issues market.

War expenditures, in the last resort, have been covered by the sale of capital assets or by accumulation of sterling balances held in London by the Dominions and India, and available to be loaned back to the Exchequer. When the war began readily available resources of the British Empire were composed of central

bank reserves, dollar balances and American negotiable securities totaling, according to a rough estimate made by the Federal Reserve Board, \$5,000,000,000. Direct investments of the Empire in American mines, oil wells, manufacturing companies and agriculture were estimated at \$1,460,000,000.<sup>10</sup> Britain has accepted the figures on total British dollar and gold assets of £7,115,000,000 as of August 1939 as the best available.<sup>11</sup> Dollar balances, acquired at the outbreak of war, provided an immediate fund of resources. Dollar balances, since that time, have been fed by a flow of sterling area exports to the United States, by shipment of gold to the United States from Canada, South Africa, India and Australia, and by sales of dollar securities in American markets.

As a result of negotiations with the Reconstruction Finance Corporation £106,250,000 was loaned to Britain in August 1941 to pay for armament orders placed in the United States before the enactment of the Lease-Lend Bill. The British Government pledged various British investments in the United States which could be redeemed as the loan was repaid, with their income utilized to pay interest. No transfer of title of any collateral was permitted by either party and no rights of ownership were vested in the United States. Subject to default, Britain retained full voting rights.<sup>12</sup> This was a more equitable arrangement than to require a forced sale of British investments, such as the American Viscose Company, at a greatly depreciated value.<sup>13</sup> This company, with assets valued at £32,000,000, exclusive of goodwill and other intangible assets, was sacrificed for approximately £13,600,000 although the company was allowed £27,125,000 by the Treasury in cash plus interest at 3% from March 15, 1941 to July 25, 1942 for 95% of its shares. Fortunately this practice of sacrificing ownership of companies was abandoned and the method, followed in 1914-18, of pledging securities against loans, was adopted again.

The conversions of municipal issues are subject, at the present time, to terms set by the Government, the same terms applying to all Public Authorities. The Public Works Loan Bill was enacted to provide the Treasury with the power to pay off holders, who did not accept conversion offers, from Local Loan Funds. Local Authorities who did not take advantage of the conversion offer



were permitted to maintain loans at existing rates or to pay them off in cash. The market has continued to reflect major changes on the war front but the national credit has withstood shocks better than that of industrial companies. Prices of industrial securities, however, resumed their recovery during the Spring of 1941 and by July had reached the highest point since April 1940. Since the Government has requisitioned all dollar securities little interest now is expressed by the London Stock Exchange in dealings on the New York Stock Exchange, and heavy arbitrage dealings between London and New York, which once affected the former market, no longer have a disturbing influence.

The index of the *Financial News* composed of 30 industrial stocks, based on July 1, 1935 as 100, was 83.9 at the end of August 1942, compared with 81.6 a month before, and 78.1 a year ago. The wartime high mark of 83 was reached on December 5, 1941 compared with 77.5 at the beginning of the war. The low mark in 1941 was reached on April 23 at 66.5 with the low record of 49.4 made on June 26, 1940 and the high mark of 124.9 on November 11, 1935.

The bond index, based on 1928 as 100, was 133.3 at the end of August 1942, compared with 133.5 a month before, 130.2 a year ago, and 133.4 at the beginning of the war. The wartime high record was 135.6 on April 29, 1942, the low of 93.5 on September 30, 1931, and the high record of 141.6 on January 31, 1935.

New capital issues for the first half of 1942 amounted to only £660,000 compared with £1,280,000 in the same period of the preceding year, £57,145,000 for 1939 and £97,416,000 for 1937. No issues were made for British companies overseas or for foreign countries, the offers being confined to those associated directly with the war. The new capital market remains closed but the Treasury finances directly the essential requirements of industrial companies that must raise capital for war production.

In spite of continued rises in commodity prices there has been no evidence of any changes in prices of bonds which as a whole, by the middle of April 1942, had reached the highest level of the war. This situation arises from the complete control of the money market which the Government assumed in September 1939 and

strengthened from time to time. Although the output of new Government issues has increased greatly the cessation of trading facilities for new capital, the requisitioning of large amounts of British foreign investments, and the redemption of vast quantities of sterling securities by Empire countries have created a shortage of gilt-edged securities. The demand for these securities has been stimulated by these conditions and by the Government's enormous war expenditures as well as by the general patriotic desire of the investing public and large institutional investors, such as banks and insurance companies, to subscribe to new Government loans. The demand for gilt-edged stocks has been increased, also, by the risks attached to industrial issues under war conditions. Although much of the depreciation in industrial stocks, incurred in the early days of the war, has been recovered the future for these issues and for their dividends remains uncertain. The Government has discouraged in every possible way investment in any issue except its own and has lead all investment money into its own issues to the exclusion of all others. In spite of all regulations, however, the financial community has continued to function on terms of intimacy with the Government, united to it by the common purpose of winning the war and financing it by the most conservative, least expensive method.

#### JOINT STOCK BANKS

The Government approached the banks of the nation, at the declaration of war, and requested them to refrain from loaning funds to companies engaged in luxury and non-essential trades. It urged them, instead, to promote Government loans and to make short-term advances to customers to enable them to purchase War Loans. In addition, it required them to loan any sums needed by the Treasury at rates of interest set by it.

Banks, in addition, have been asked to finance the export trade and to aid industrialists in expanding their plants to satisfy war contracts. The procedure followed has been for contractors working on Government account to receive advances from banks against progress certificates. These documents state the expendi-

tures which have been made on specific contracts. Frequently banks have asked Public Departments to state whether funds are to be used for essential purposes and they received, in turn, confidential information concerning the accounts in operation between the Government and the contractors.

Demands for currency have continued to expand. The Bank of England's reserve in its banking department has been reduced from time to time, and increases have been made in the fiduciary issue. While the Government is concerned about the huge increase in note circulation it is not alarmed because it recognizes that this change is inevitable as the national income and wages continue to rise and opportunities for spending decrease. If no definite action is taken to check wage increases in the future no limit can be set for the circulation rise. The wartime increase in note circulation may be accounted for by increases in total wages, savings of hoarded money, cash turnover in black markets, the cost of living, and in the amount of personal cash held by citizens and American and British troops. However, the increase in circulation has been held within bounds of actual requirements. The Government policy has continued to encourage wage-earners to save much more money than they received in peacetime and to lend larger sums of their savings to the Treasury.

#### FOREIGN EXCHANGE

The objectives of exchange control and of foreign exchange policy adopted by the Government have been to conserve British reserves of gold, foreign exchange and marketable foreign securities in order to ensure that they were not used for any purpose contrary to the national interest, and to ascertain that exports secure as much foreign exchange, and imports cost as little foreign currency, as possible.

At the end of August 1939 an Order was made which required holders of gold and certain foreign currencies to offer them to the authorities. It forbade conversion of sterling into foreign exchange without official permission. Foreign holdings, however, were unaffected until June of the next year when sterling securities held by non-residents were blocked.<sup>14</sup>

In April 1940 partial control of foreign exchange dealings was secured by the prohibition of the export of capital and the provision that foreign exchange could be obtained only from authorized dealers who, in turn, bought it from the Bank of England. All privately held foreign exchange was surrendered to the Treasury. Free liquidation of sterling balances and British investments in the hands of non-residents was permitted although sale of sterling balances was not at the official Bank of England rate, but instead at the free market rate.<sup>15</sup>

On March 25, 1940 the Government reduced the number of permits for importation of goods payable in sterling to be sold in the free market. No rubber, tin, Scotch whisky, jute, or furs could be exported unless the exporter received payment in American dollars or in sterling purchased at the official rate. As it was realized that the existence of a free market cost the Treasury a certain amount of foreign exchange, during the Summer of 1940 the Treasury abolished the free sterling market.<sup>16</sup> All licenses which permitted residents outside the sterling area to sell securities to Britain were revoked and British bank notes, held abroad, were barred from re-entry. Limitations were imposed on the right of foreign holders of sterling to dispose of their sterling assets to non-residents. Bank accounts of citizens who had left Britain to settle in the United States when war threatened were frozen by the Treasury. This prevented them from paying bills, such as for rent and insurance, in Britain if they were unable to earn enough money overseas to remit dollars home.

Exchange clearing agreements have been extended in recent months. They permit the Government to purchase goods by the payment of foreign exchange, and require other countries to use their sterling assets for purchases made in the sterling area. British exporters to the United States cannot accept payments for their goods in any other currency except in American dollars in order that reserves may be increased and dollar holdings maintained. The Government has signed agreements with raw material producers in South America and in other parts of the world which state that they must accept its terms, selling against payment in sterling blocked and not convertible into gold or foreign exchange which can be used for the purpose of British goods. The

selling price of raw materials and the rate of exchange between each producer's currency and sterling have been fixed. British purchases are made at a fixed price for all raw materials produced by the Dominions and Colonies, with sterling used as the medium of exchange. Although exporters of goods can spend their proceeds in the Empire they are required to respect priorities and to buy Empire goods made from Empire materials with Empire labor, loaning their receipts to the Government or depositing them in a bank which loans them to it.

Through these measures the prevention of the exodus of domestic capital and the flow of export proceeds into the central exchange reserve have been secured. While the free sterling market has ceased to exist, the terms on which that part of British trade financed in the free market has been improved appreciably.

In November 1940 blocked accounts appeared as the Treasury, at that time, decided that non-resident owners of capital claims, such as those arising from sales of real estate or redemptions of securities, were to be required to accept the delivery payment of claims in blocked accounts in banks. Investment of these accounts was to be made in a specified list of Government securities drawing interest during the war. Another piece of legislation required all individuals who had sent funds abroad in the form of one-man companies to transfer to the Bank of England any gold, listed securities or listed foreign securities held by the companies. British securities have been completely mobilized by various enactments and their transfer to non-residents has been forbidden. They can be requisitioned at any time against payments in sterling.

The weak point in exchange control for some time was its relation to soft currency countries. Strict application of the bilateral clearing principle has removed the tendency of neutral creditors of Britain to switch from soft to hard currencies. The Government has ascertained that the terms of trade between the sterling area and neutral countries has been as favorable as possible, and that it has provided the nation with the proceeds of her export trade, placed them under the control of a central authority, and prohibited their dissipation in the finance of the flight of capital from the sterling area.<sup>17</sup>

## WAR BUDGETS

In April 1939 Sir John Simon, Chancellor of the Exchequer, introduced the highest peacetime Budget in British history, totaling £1,322,000,000. To the Budget proposed by him a year later Sir Kingsley Wood, his successor, added expenditures of £800,000,000. Total expenditures, including the armed forces, supply services and essential war services, such as shipping, food and home security, have risen from an average weekly total of £50,000,000 from September 1939 to June 1940, to £66,500,000 at July 1940, to £71,750,000 at November 1940.<sup>18</sup>

The original 1940-41 Budget estimated expenditures at £2,667,000,000 but they actually reached £3,867,000,000, £1,200,000,000 more than was spent in 1917-18 the period in which World War expenditures reached their height.

On April 7, 1941 Sir Kingsley Wood introduced the most drastic Budget ever to appear in Britain.<sup>19</sup> He referred to the "first-class revolution in the fiscal system which has been happening, though silently, in the past year", and proposed severe methods of raising revenue and of preventing inflation. One newspaper commented on the new Budget by stating: "Belatedly, but boldly, Sir Kingsley Wood has put the finances of the entire nation into battle dress." Another said: "The only regret is that it was not done before. Let the Government mark that fact, and never be afraid to make the most exacting call upon the people. They prefer victory to temporary comfort." Both the press and the public applauded the Budget terms and accepted them in spite of their obvious severity.

This Budget, covering the year 1941-2, estimated expenditures, excluding supplies from the United States, at £4,206,957,000 and revenues at £1,786,360,000, leaving a gap of £2,420,597,000 to be met by sinking fund provisions, savings (estimated to yield £1,600,000,000), taxation and borrowing. It was indicated in the White Paper that accompanied it that in the two years 1938 and 1940 national wages cost had risen from £1,820,000,000 to £2,483,000,000 or 36½%. The increase was more striking than appeared on the surface as wages included payments to the armed forces

which meant a reduction in incomes of wage-earners taken from industrial employment into the forces. Profits and interest showed a rise of £336,000,000 to £1,514,000,000 before deductions of national defense contributions and excess profits taxes. The amount distributed to shareholders, however, increased by only £268,000,000, less than 22%.

The 1940-41 financial year had closed with total expenditures of £3,867,000,000 and revenues of £1,400,000,000. Expenditures for the first nine months of 1941 reached £3,495,761,703 compared with £708,063,346 for the same period of the previous year. Revenue reached £1,221,567,566 as against £752,418,136 for 1940. Tax-payers paid £1,221,567,556 or £467,149,420 more than in the previous year. The deficit accumulated to December 31, 1941 had reached £2,274,194,147. These figures serve to concentrate attention upon the enormous cost of modern warfare.

The sources of war finance for the calendar years 1940 and 1941 and as per the Budget forecast for 1942-3 were as shown on page 188.<sup>20</sup>

Britons, because of the war, are more conscious than ever before of their country's monetary problems but they realize that the war economic system cannot be organized upon a financial basis. They realize, too, that the future must see an organized attack upon the questions of the re-creation, direction, distribution and utilization of British wealth in view of economic and social, rather than personal, objectives.

After reading the 1941 and 1942 Budgets, and the accompanying White Papers, all citizens were aware that national activities would have to be subjected to additional stringent control. Many financial problems have been presented. The plan for the post-war refunding of new income tax payments, for example, will be difficult to execute. The post-war credit of income tax payments, for individuals in low brackets, was continued in the most recent Budget and may receive further expansion in future years.

In the 1942-3 Budget income taxes remained unchanged but expenditures were estimated at £5,286,479,000, an increase over actual expenditures in 1941-2 of £510,000,000. Included in the former total, however, were not found materials received under

	<i>Calendar Year 1940 £Mn</i>	<i>Calendar Year 1941 £Mn</i>	<i>Budget Forecast 1942-3 £Mn</i>
Central Government expenditure	3,333*	4,620*	5,286
Less, Overseas disinvestment	759	798	775**
Expenditure requiring domestic finance	2,574	3,822	4,511
Less, Central Government revenue	1,253*	1,832*	2,402
	1,321	1,990	2,109
Less, Extra-budgetary funds and local authority surpluses†	176	220	
	1,145	1,770	
Less, Compensation received in respect of war risks and war damage claims‡	36	249	
	1,109	1,521	
Less, Savings and undistributed profits, including reserves against taxation	823	1,028	
Residue from sources indicated below	286	493	

\* Adjust for appropriations-in-aid, etc.

\*\* Including Canadian contribution of £225,000,000.

† Excluding the Exchange Equalization Account, changes in which are already included in overseas disinvestment.

‡ This deduction must be made because credit has been taken in the above table for the whole of compensation received in respect of war risks and war damage claims, whether or not it has been applied to replacement.

The residue has been provided from the following sources:

1. Sales to public authorities of fixed capital assets (such as sites, buildings and stocks of goods) previously owned privately.
2. Sinking funds and depreciation funds of firms and institutions.
3. Net depletion of stocks and working capital (apart from sales under (1) above) carried by private finance, measured by the reduction in their value as reached in the calculation of the year's profit.

Less:

4. Net investment financed out of privately owned funds.
5. Replacements and renewals charged on depreciation funds.
6. Replacements of war losses actually carried out (including new ships in private ownership and stocks of commodities lost and replaced within the year).

Lease-Lend which, if included, would bring the total to around £6,500,000,000. Revenues were estimated at £2,627,000,000, leaving a gap of £2,659,479,000. To help meet this deficit and to curtail



consumption of non-essential goods a 100% increase was made in the purchase tax on luxury goods, taxes on entertainment were increased, and additional levies were imposed on tobacco and cigarettes, beer, wines and spirits. The Budget White Paper indicated that, during the next fiscal year, 64% of the national income of the country would be spent on the war effort.

The war has seen the destruction of British wealth on a huge scale. It has required the Treasury to make inroads in its capital resources to maintain the production of instruments of war, the social services, and civilian necessities. But the role of finance has remained that of lubricant for the machines which secure their driving power from other sources. While it has not been permitted to be the dominating factor in the British war economy its position has never been ignored by Government officials, and its facts have been brought home to every citizen as finance, for the first time in British history, has been related to social and economic policy of the Government.

Four weak points in the financial structure remain. It is still possible for a business man to make capital profits which are not brought within the tax structure. Small one-man trading companies still escape Excess Profits Taxes. Under the stimulus of this tax unnecessary business expenses tend to increase. The cash incomes of wage-earners still are very much above their pre-war level and much of this increase escapes direct taxation. The Government will have to face the harder months to come with a determined policy toward taxes and compulsory savings in order to continue to maintain its finances on a sound basis and to provide a financial structure which can support the British post-war economy.

## CHAPTER VI

### TAXATION OF INCOME

At the inception of the war Britain had no definite plan for the finance of expenditures except through the imposition of heavier taxes, the conversion of gold, foreign exchange and securities in the hands of the Government, and the increase of war loans. It was realized by the Treasury that an increasingly large portion of expenditures would have to be covered by some form of tax imposed on incomes or purchases.<sup>1</sup> By this method it would be supplied with additional revenue, and incomes of citizens would be reduced sufficiently to prevent increase in purchasing power of wage-earners.

Various modes of taxation were considered by the Government, such as, a series of taxes on luxury and semi-luxury products; a turnover tax; an extension of direct taxation to cover salaries and wages below the current effective income tax; a tax to be collected by direct deductions from the weekly or monthly pay-checks of employees.

Two major considerations were inherent in the tax program selected: first, that the system should be as simple and as cheap to operate as would be consistent with securing the necessary revenue; second, that the more delicate adjustments should be made after the war ended in the interests of securing for all citizens an equitable tax base. It was agreed that when the war produced its effect upon income and trade larger war expenditures would have to be covered by taxation. Unless surplus purchasing power were absorbed in this manner it would produce inflation which, in turn, would have to be checked by the imposition of higher income, surtaxes and excess profits taxes. Inflation in the small income brackets, which customarily escaped direct taxation,

the Treasury realized would prove more difficult to place under control.

#### OBJECTIVES OF WARTIME TAXATION

As the war has progressed peacetime standards of taxation have had to be reversed. In the war period the espousal of the program of discouraging needless expenditures has become more important while in the peacetime years the aim has been that of avoiding the restriction of consumption of essential goods. As more money has been required by the Government, to pay the members of the fighting forces and their families' separation allowances, civil servants and others on the national payroll, business companies producing instruments of warfare, and social services, the importance of transferring every resource to the war effort and of distributing the cost of the war equitably among all the population have assumed greater proportions.

In the three years of war expenditures have been financed partly by taxes and partly by loans. The first, compulsory, have been designed to spread the burden according to the ability of citizens to pay; the second, voluntary, have been incurred to secure any surplus money which remains to wage-earners and other civilians after the payment of taxes. The main distinction between taxes and loans remains that, in the case of the former, money is given to the Government directly and outright, whereas, in the latter, it is lent and is subject to interest and to repayment of principal. In both cases, however, the result of the two methods is the same as they both provide the Government with direction of the resources which have been converted from the production of consumers' goods to that of articles of war.

In his brilliant address before the Tax Institute, Wharton School of Finance and Commerce, at the end of 1941, Brinley Thomas, of the British Embassy, outlined the stages through which a nation, such as Britain, had to pass to attain a total war economy. These stages, in his opinion, included the following:

##### *I. Unemployed Resources Absorbed*

After a country has embarked on a rearmament program a new stimulus to investment is apparent. The First effect of this is the

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reabsorption of unemployed men and idle plants; then there is a corresponding rise in the nation's real income. If the country entered this program with a fairly large volume of unemployment in the first stage there is a sharp increase both in the production of goods for civilian consumption and of armaments. The wages of highly skilled workers may rise in various areas but on the whole what occurs is that more goods and services are produced without much change in the price level.

II. *Full Employment, with the Transference of Men and Resources from the Peace Sector into the War Sector Still Proceeding*

At the beginning of this stage practically all workers, except those which are unemployable or in the act of moving from one job to another, are in employment, but they are divided among various industries and occupations in a manner different from what the war effort requires. The problem here is to secure a rapid transfer of labor and equipment out of peace employment into war production, while at the same time tapping new sources of labor, such as women and retired persons. If this is to be achieved it means that, as the part of the national income used by the Government rises, the proportion spent by the public on itself must fall.

III. *Full Employment, with the Optimum Transfer of Men and Resources into the War Sector Achieved*

In this phase the war economy has reached its maturity. There is some optimum proportion of the real income of the community which the Government must obtain if it is to put forth a full war effort. A democratic Government has to devise ways and means of inducing the public to release its peacetime grip on the nation's productive resources as quickly as possible. It is labor, raw materials and equipment that the Government must secure, and the object of war budgets and victory loan campaigns is to engineer their transfer from peacetime to wartime uses. When the limit of transfer has been reached, the problem of policy then is to ascertain that this maximum level of effectiveness is maintained.

In the British Government's program to push forward the last stage it has resorted to two measures, one fiscal, the other physical. In the first named, various indirect measures have been intro-

duced to control consumption and production and to influence people in the use of their money. These have included taxation, war savings, sale of foreign assets, price controls and foreign exchange control. Under the second, direct control of consumption and production has been achieved by such measures as the rationing of consumers' goods, limitation of supplies, establishment of priorities, restriction of imports and exports, requisition of factories and premises, concentration of industry, and transference and dilution of workers. But it has been demonstrated, again and again, that although a democracy begins a war by relying, to a great extent, upon fiscal and budgetary measures in the end it cannot secure the desired effort by these measures alone. This view was demonstrated in the Chancellor of the Exchequer's Budget speech of April 1941 when he stated that:

The problems inherent in the most expensive war in history . . . cannot be solved by purely financial means. There can be no single approach to the problems of a total war economy.

Britain has discovered that, in order to successfully negotiate the various stages of the process, greater stress must be made on direct physical measures and less upon indirect fiscal policy. In moving through these phases Britain may be considered to have remained in phase I until the latter part of 1940, in phase II until the early part of 1942, and the achievement of the final stage was not secured until the latter part of 1942. During the movement through these stages, however, she has learned, on more than one occasion, that the direct methods are of greater importance than was at first appreciated, and that taxation is only one of several methods available to the Treasury in solving the problem of war finance.

#### EFFORTS TO TAX INCOME

The 1938-39 Budget, which imposed the heaviest taxes on British income since the last war, raised the standard rate from 25% to 27½%, representing a rise from 5s to 5s 6d in the pound. In the first War Budget, introduced by Sir John Simon in September 1939, income taxes were raised in amounts varying from

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2s to 7s 6d in the pound. At the end of the World War income taxes had reached the level of 30%; before the rearmament program they stood at 22½%. In the earliest Budget of the present war direct taxes were increased and indirect taxes were levied. In spite of the imposition of these taxes it has been estimated that about 90% of the war effort at that time was financed by borrowed money.

A number of increases in the tax rate have occurred during the progress of the war. The first was the elevation in the normal tax from 27½% to 37½%, and this was accompanied by the reduction of personal exemptions and the increase of estate duties and surtaxes. The Budget estimates for taxes for 1938-9 and for 1939-40 follow:

	1938-9	1939-40
Income Tax	£341,250,000	£327,000,000
Surtax	62,000,000	70,000,000
Estate Duties	88,000,000	80,000,000
Stamp Taxes	24,000,000	21,000,000
National Defense Contribution	20,000,000	25,000,000
Other Taxes	1,250,000	1,250,000
Customs Duties	227,950,000	232,560,000
Excise Duties	116,150,000	116,460,000
Motor Vehicles Duties	36,000,000	43,450,000
Total Revenue from Taxes	<u>£916,600,000</u>	<u>£916,720,000</u>

To accomplish the change in the rate the basic tax levy was raised to 30% through March 31, 1940, and for the following year to 37½%, more than six times what the taxpayer paid in 1914 and 36% more than he paid in the previous year. The 1940-41 Budget, introduced in April 23, 1940, lowered the initial point for the surtax from £2,000 to £1,500, raised income taxes to 7s for the fiscal year of 1939 and 7s 6d for 1940-41. Rates applied to incomes of £3,000-£4,000 if the incomes were earned. At the beginning of the scale allowances were made but at its upper range surtaxes were imposed. All incomes over £100,000 were liable to more than 80% tax.

In the Second Supplementary War Budget of July 1940 the tax rate was raised to 42½%, or to 8s 6d in the pound, and taxes were

deducted at the source of income from January 1, 1941.<sup>2</sup> Incomes in excess of £80,000 were taxed at the rate of 90%. Exemptions were made to single persons earning £100 a year and to married persons earning £170, and a credit of £50 was granted for each child. Death duties were raised to 60% on the highest estates. To illustrate the heavy taxes imposed on incomes by this Budget the following tabulation is submitted:

<i>Total Income</i>	<i>Remainder After Income Tax and Surtax</i>
£ 2,000	£ 1,330
5,000	2,570
10,000	3,920
20,000	5,360
50,000	10,360

The changes in taxation, under the Budgets of April 1939 (last pre-war Budget) and of April 1942, for a married couple with two children, income wholly unearned, showing the income before and after deduction of income tax and surtax, are indicated by the following table:

<i>Income before Deduction of Tax</i>	<i>Income after Deduction of Tax</i>	
	<i>Budget April 1939</i>	<i>Budget April 1942</i>
£ 500	£ 471	£ 399
1,000	833	649
5,000	3,381	2,168
10,000	5,745	3,143
50,000	18,995	4,580
100,000	32,745	5,830

And the income before and after deduction of income tax, under the two Budgets, for a single person, income wholly earned, follows:

<i>Income before Deduction of Tax</i>	<i>Income after Deduction of Tax</i>	
	<i>Budget April 1939</i>	<i>Budget April 1942</i>
£125	£125	£114
150	148	132
200	195	167
250	242	203
300	287	234
350	326	261
400	365	289

Surtax for the year 1939-40, payable January 1, 1941, was at the following rates:

In relation to the first 2,000	Nil
Tax chargeable on every £ of income:	
2,001 to 2,500	2s od
2,501 to 3,000	2 3
3,001 to 4,000	3 3
4,001 to 5,000	4 3
5,001 to 6,000	5 0
6,001 to 8,000	5 9
8,001 to 10,000	7 0
10,001 to 15,000	8 3
15,001 to 20,000	9 0
20,001 to 30,000	9 6
Above 30,000	9 6

The tax estimates in the first War Budget of September 1939 stated that the changes in income and indirect taxes would yield an additional £107,150,000 for the financial year 1939-40. For the year 1940-41 total increased taxation was estimated at £101,360,000 bringing the total tax revenue to £1,201,700,000. The Second Budget of 1940-41 estimated taxes to yield £85,800,000 in the year 1940-41 and £129,150,000 in a full year. In the Budget of April 1941 it was estimated that for the year 1941-2 an increase of £150,360,000 would be secured, £252,160,000 in a full year, of which £54,000,000 and £125,000,000, respectively, would be treated as a post-war credit.

During 1939-40 out of a total expenditure of £1,816,873,000, revenue supplied £1,049,189,000; during 1940 the totals were £3,884,288,000 and £1,408,867,000, respectively. Estimates for 1941-2 stood at £4,207,000,000 and £1,786,360,000, representing taxation per head of population of about £36. During the previous war the large proportion of expenditure met out of revenue, reached during this war, was never attained. In 1918 £889,000,000 was provided from revenue against total expenditures of £2,579,300,000 but in no other year of that war was the proportion so large as one-third.

Taken together the four War Budgets have imposed new taxes amounting to £788,000,000 in a full year. This represents a figure more than the annual average of the entire tax revenue in the



last ten years before rearmament began, and the tax revenue during the latter part of 1941 was nearly £1,000,000,000 more than in the last year before the war, namely 1938-39. Most of this increase can be accounted for by income tax and surtax for not only has the standard rate been increased, 10s in the 1941-2 Budget compared with 5s 6d in the pound before the war, but reductions have been made in allowances. These reductions brought many incomes within the scope of the tax.

In the financial year 1938-9 taxpayers numbered 3,800,000 and in 1941-2 10,500,000, an increase of 180%. The increase in total taxes assessed was 170%, rising from £310,000,000 to £835,000,000, and the amount of income assessed rose from £3,000,000,000 to £4,250,000,000. The main increase in taxpayers came from lower income brackets, owing to the lowering of the exemption limit from £125 to £110, and the increasing levels of wages and salaries. Lowering the exemption limit brought in some 600,000 persons but the Treasury, also, increased the number assessed among individuals earning £125 to £250 from 1,750,000 to 5,700,000, and those earning £275 to £500 from 1,250,000 to 3,200,000. From these lower income groups of taxpayers the Treasury demanded £270,000,000, instead of £23,000,000 before the war. In the classification of gross incomes from £500 to £5,000 the number assessed was 973,000 against 773,000 and they were required to pay £2,240,000,000, against £148,000,000. Of those earning above £5,000 the number assessed remained the same although these individuals were liable for £295,000,000 instead of £139,000,000. The number of persons receiving above £100,000 gross income remained unchanged at an estimated 100, but on an assessed total income of £18,000,000 these persons were required to pay £17,300,000 in 1941-2 compared with £12,500,000 in 1938-39.

Under the 1941-2 Budget any person earning 46s per week paid, in addition to indirect taxes, nearly 3s a week in income tax, and a single person earning £4 a week paid 12s a week in tax.<sup>3</sup> At the other end of the scale married couples without children, earning £5,000, £10,000, £25,000 and £50,000 a year paid 56%, 68%, 84% and 91%, respectively, of their income in taxes. In order for an individual to enjoy a net income of £4,000 a year he would have to receive a gross income of about £25,000, and to have a

net income of £6,000 he would have to receive a gross income of over £100,000. In this connection it has been reported that the number of incomes exceeding £100,000 a year before the outbreak of war (assessments made for the year 1937-38) was 99 and the total number of incomes exceeding £25,000, including the 99, was 1,437. The number of individuals with net incomes over £4,000 a year is very small and the number receiving incomes over £6,000 is almost negligible.

If the Treasury took over every penny of income above £2,000 from those individuals who received this income the gain would only be around £30,000,000. According to Government data, the number of citizens with net incomes of between £1,000 and £2,000 has fallen from 1938 to 1942 from 155,000 to 105,000, those between £2,000 and £4,000 dropped from 56,000 to 30,750, and those with £6,000 or more decreased from 7,000 to 80. The effect of taxation, therefore, was that the total of all incomes above £500 a year remaining to individuals after payment of taxation was greatly reduced. However, the excess remaining after payment of taxes on incomes between £125 and £500 a year has increased in this same period by about £700,000,000. These facts indicate that incomes have been redistributed in favor of lower income groups, and that the income tax has acted as a method of emphasizing this movement and of spreading the cost of the war as widely and as fairly as possible. Heavy estate taxes are payable, also, at rates given below:

<i>Net Capital Value of Estate</i>	<i>Rate of Duty</i>
£ 100,000-£ 120,000	26%
300,000- 400,000	39%
1,000,000- 1,250,000	52%
Over 2,000,000	65%

#### POST-WAR CREDITS

Because of the heavy direct tax system citizens are prevented from making large fortunes out of the war and all rich individuals are forced to make a large contribution to the war effort. All Britons, however, were called upon by the 1941-42 Budget to provide heavy tax contributions to the Treasury through the introduction of a system of forced savings adopted to diminish

the amount of current purchasing power and to curb inflationary price rises, and to provide, for the post-war period, sums of money to tide over the post-war slump. This forced savings plan, considered for some months by the U. S. Treasury Department, was incorporated in its 5% Victory Tax program enacted in October 1942.

Three types of post-war credits now are operating in Britain as shown in the following outline:

1. *Income tax credits* under which all income tax paid as a result of reduced allowances introduced in April 1941 are credited to the taxpayer after the war. For example, personal allowances of single taxpayers under the plan were reduced from £100 to £80 and of married persons from £170 to £140. Earned income allowances were reduced from one-sixth of earned income, with a maximum allowance of £250, to one-tenth of earned income with a maximum allowance of £150. The tax for these two reductions was credited with post office savings banks on a sliding scale up to a maximum of £65 for each taxpayer per year to become repayable after the war. To illustrate this post-war credit, a single person with an income of £20 per week formerly paid no tax but under this Budget paid £7 10s with a post-war credit for this tax. Married couples without children who earned £60 paid £1 6d; married couples with two children who earned £270 paid 19s 6d; married couples with three children who earned £300 paid 16s 3d—in each case the tax being treated as a post-war credit to the account of the taxpayer in the post office. It was estimated that the increase in tax and the reduction in allowances would result in £250,000,000 more tax being paid in a full year of which about £125,000,000 would result from decreased allowances alone. Post office savings books have not been issued for these credits because of scarcity of paper but certificates have been provided for all taxpayers concerned.
2. *Armed forces pay credit* in operation from January 1942 under which a sum of 6d a day for men and 4d for women is credited to all members of the armed forces. The credits amount to about £9 a year for men and £6 for women. The method adopted for payment of the credits is the same as for the income tax credit, that is into a post office savings account.
3. *Excess profits tax credit* under which 20% of all excess profits tax,

paid at the rate of 100%, will be repaid after the war (less income tax). This credit, included in the April 1941 Budget, was to be "treated as a reserve to be made available to industry at the end of the war for purposes of reconstruction" at which time the refund would be subject to income tax at the rate then current. In April 1942 it was stated that this credit, like the income tax credit, "would accrue by statutory right, subject only to its not being used for dividends or for the issue of bonus shares." In July 1942 the Chancellor of the Exchequer stated that official certificates in respect of these excess profits tax payments would be issued to provide some tangible evidence of the right to the post-war credit.

In the United States, under the October 1942 tax bill, British forced savings plans have been introduced by which 10% of all excess profits taxes are refundable, 5% victory taxes are applied to the pay of soldiers above a private although these taxes are not deducted but will be paid later, and a 5% victory tax on all incomes over \$624 a year starting January 1, 1943 is to be deducted at the source for wage and salary workers except those engaged in agriculture and domestic service. This last tax, applying at the rate of 5% to all wages over \$12 a week, is handled as follows: 25% of the tax is handled as a credit for single taxpayers and 40% for all married taxpayers with a 2% credit allowed for each dependent.

#### EFFECT OF TAXATION

Through the new taxes it was estimated that £1,860,000,000 would be raised in a single year but it did not apply to small incomes until January 1942.<sup>4</sup> Recent impositions of taxes to lower ranges of income than ever before have made it impossible for any Briton to earn more than £3,000 a year, take one-third of the estimated national income in the form of taxes, and state the avowed intention of the Treasury to borrow another one-third. The Chancellor of the Exchequer has stated that the "primary object of tax proposals is not to obtain taxation for taxation's sake or to raise revenue for the sake of revenue, but to make a considerable cut in the purchasing power during the war."

The 1942-43 Budget made minor modifications in income taxes. In order to secure more married women for war produc-

tion their special exemption was raised from £45 to £80 a year. The Treasury stated that taxes should not reduce the earnings of a single man below £2 a week, of a married man without children below £3, or a married man with two or more children below £5. It indicated that 85% of the nation's net purchasing power, after income taxes, now remains in the hands of citizens with incomes of £500 or less a year. In announcing an estimated expenditure far beyond any figure previously given it was stated that in 1942-3 64% of the national income would be applied to the war effort, compared with 50% of the national income in the United States. Expenditures, totaling £9,925,000,000 from September 3, 1939 to the eve of the Fifth War Budget April 1942, were covered 43% by revenue (taxation) or £4,283,000,000; 35% by loans or £3,510,000,000; and 22% by floating debt or £2,149,000,000. In the financing of this war Britain has been much more successful than in World War I in covering a high proportion of expenditures by taxation. The United States Treasury might well consider the British tax system and adapt those features transferable to America. Taxpayers contributed £2,074,057,310 to the Treasury during the 1941-2 fiscal year, an increase of £665,190,213 over revenue of the previous year, representing the first time that taxpayers had contributed more than £2,000,000,000 to their Government.

Consideration of the proportion of the British national income secured in taxes between 1938 and 1941 indicates an increase from 26 to 40% as follows:

	1938	1940	1941
National income	£4,595,000,000	£5,585,000,000	£6,338,000,000
Direct taxes, War Damage Act contribution and premiums, etc.	£534,000,000	£768,000,000	£1,215,000,000
Indirect taxes, property taxes, war risks insurance premiums, etc., less subsidies	630,000,000	850,000,000	1,103,000,000
Excess of tax liabilities over payments	30,000,000	213,000,000	239,000,000
Total tax liabilities	£1,194,000,000	£1,831,000,000	£2,557,000,000
Total tax liabilities as percentage of national income	26	33	40

The proportions of revenue and expenditure in relation to the national income are indicated in the following table:

	1938-9	1940-41	1941-2
Net national income	£4,500,000,000	£5,800,000,000	£6,200,000,000
Government Revenue:			
National	£1,046,000,000	£1,587,000,000	£2,080,000,000
State and Local	204,000,000	220,000,000	230,000,000
Total	£1,250,000,000	£1,807,000,000	£2,310,000,000
As % of National Income	27.8	31.2	37.3
Government Expenditure:			
National	1,187,000,000	3,190,000,000	3,950,000,000
State and Local	204,000,000	220,000,000	230,000,000
Total	£1,391,000,000	£3,410,000,000	£4,180,000,000
Of this defense or war	395,000,000	2,440,000,000	3,130,000,000
As % of National Income:			
Total	30.9	58.8	67.4
Defense or war	8.7	42.1	50.5

#### COLLECTION OF TAX

The Treasury has maintained a continuous effort to reduce tax evasions to a minimum and in this work valuable assistance has been furnished by the accounting profession. So important is the position of the latter that any returns certified by them customarily are not questioned by the Government.

Tax warrants, under the name of "new special security", were issued in denominations of £24 and multiples, could be tendered during a limited time, and became interest-bearing if they were offered in payment of taxes.<sup>5</sup> The specific taxes for which they could be used included income taxes other than those applicable to workers whose tax was deducted from salaries and wages, national defense contributions, excess profits taxes, land taxes, and war damage contributions.

The method of deducting taxes from salaries and wages, at the source, introduced for the first time in November 1940, and adapted by the United States in its October 1942 tax bill, has proved popular with all taxpayers. Before its inception citizens were required to make heavy tax payments on June and July first of each year.

The British tax structure remains in the hands of the Board of

Revenue. Assessing of liability to tax is carried out by District Inspectors of Taxes and their staffs, with the country divided into 700 tax districts. Special procedures are followed for assessing taxes on interest on Government issues, foreign dividends, etc., with tax on such income usually deducted at the source and paid to the Inland Revenue Head Office in London. The closing date for incomes has remained at April 5, but is charged on profits of the preceding year. All companies are subject to tax on their total profits which is assessed by the Local Inspector of Taxes. They pay their tax to the appropriate Collector, but they can deduct it at the standard rate from dividends paid to their shareholders. This is a system of taxation at the source under which shareholders receive from their company not the gross dividend but instead the amount remaining after deducting income tax from it.

Deduction at the source is now applied to taxes assessed on all salaries and wages. The amount of tax deducted is usually not at the standard rate, but allowance is made for personal allowances to which the taxpayer is entitled. Customarily the Inspector of Taxes determines the total tax payable by the owner on his salary or wages, taking into account his allowances, and then notifies the Collector of Taxes of the amount due. The Collector, in turn, informs the employer of the amount to be deducted, in the following six months, from the employee's salary or wage. The employer deducts that amount, by approximate equal sums week by week (when payments are made on a weekly basis) or monthly from the wages or salary due the employee. The former has to pay over to the Collector the amounts so deducted in any month by the fifteenth of the following month. By this method maximum collections are secured at the minimum of expense for the Government.

The collection of tax payments has been simplified by the provisions of the 1942-43 Budget but, before its introduction, numerous experiments had been made by companies to solve this problem. In one firm, through a simplification in income tax collections, production was increased 30% and output costs were lowered. Under this plan the company advanced each employee's total tax liability and received repayment from weekly earnings

over a period of one year. The employee, in this manner, was assisted in paying his tax but, in addition, he was aided by firm accountants who helped him prepare his return and secure proper allowances.

The Inland Revenue Board in a plan to help workers in the solution of their tax problems, issued a pamphlet titled "Income Tax Quiz for Wage-earners" which quickly became a best-seller. The booklet is addressed to weekly wage-earners for, of the total of 10,000,000 income taxpayers, 6,000,000 are wage-earners receiving slightly over £2 weekly. The Board, also, has clarified many misunderstandings about the post-war credit, the amount of additional income received which would be tax-free, and other matters. In addition, it has served to alleviate the reduction in incentive to workers to work overtime and has eliminated retarding factors to the recruitment of labor which had developed from ignorance on the part of workers who paid taxes for the first time in their lives. To educate these taxpayers a large-scale campaign was organized, posters were distributed, factory committees were set up, and the British Broadcasting Company arranged special talks on the subject of taxes and tax returns. When it was brought home to workers in one plant that the contribution of an annual income tax payment of £35,000, made by the 1,000 men employed, four Spitfires or 777 large bombs could be purchased their desire to pay taxes immediately increased.

Many criticisms had been made of the income tax rates continued in the April 1941 Budget. Some workers expressed their disinclination to work overtime because of the high tax on their overtime wages, and because men and women were taxed jointly women were reluctant to enter war employment. The calculation of the post-war credit, also, proved a complex task; in some cases workers were unable to calculate their credits and the Government failed to inform them of the total.

In answer to these criticisms the Government, in its 1942-43 Budget, simplified the income tax blank, abandoned the system of combining the wife's earnings with those of her husband, and indicated that each taxpayer would receive a certificate showing his post-war credit which could not be drawn upon to cover his arrears in the future. In relation to the post-war credit certificate



the back of the document varies according to the class of taxpayer and on it is stated the calculation showing how the post-war credit is determined. For weekly wage-earners assessed half-yearly the total of the post-war credit amounted to £60,000,000 out of a total tax bill of £125,000,000 for the year 1941-42. As the assessments for the second half-year which ended on April 5, 1942 have not been made it will be months before the figures can be settled and certificates issued to these taxpayers. The amount of the post-war credit in individual cases is shown in the following table of examples which are approximate only as the exact amounts of income tax depend upon personal circumstances, such as, other income received, support of dependent relatives, etc.:

<i>Single Person</i>			<i>Married Man Without Children</i>		
<i>Average Weekly Wage</i>	<i>Total Tax for the Year</i>	<i>Amount of Tax Placed as a Post-War Credit</i>	<i>Average Weekly Wage</i>	<i>Total Tax for the Year</i>	<i>Amount of Tax Placed as a Post-War Credit</i>
£2	Nil	Nil	£2	Nil	Nil
£4	£34 17s	£11 0s	£4	£15 7s	£14 5d
£6	£71 10s	£19 10s	£6	£45 15s	£16 10s
£8	£118 6s	£23 17s	£8	£88 6s	£28 17s
£10	£165 2s	£27 7s	£10	£135 2s	£32 7s
£12	£211 18s	£30 16s	£12	£181 18s	£35 16s
£14	£258 14s	£34 5s	£14	£228 14s	£39 5s
<i>Married Man with 1 Child</i>			<i>Married Man with 2 Children</i>		
£2	Nil	Nil	£2	Nil	Nil
£4	Nil	Nil	£4	Nil	Nil
£6	£29 10s	£16 10s	£6	£13 5s	£13 5s
£8	£63 6s	£22 3s	£8	£43 14s	£18 15s
£10	£110 2s	£32 7s	£10	£85 2s	£32 7s
£12	£156 18s	£35 16s	£12	£131 18s	£35 16s
£14	£203 14s	£39 5s	£14	£178 14s	£39 5s

Under the 1942-3 Budget married men obtained substantial increases of income tax allowances on their earnings from war work. An increase in a married woman's allowance on earned income to a maximum of £80, also, was made and a traveling allowance of £10 was permitted on an annual basis, Under it, in addition,

special allowances were granted to seasonal workers, a concession given to alleviate the depression of the taxpayer through levies and the tendency for him not to work harder and to earn more because of the heavy taxes made against his earnings. However, the changes introduced did not secure a complete reform in the tax structure which many critics had wished to see enacted through a plan to simplify the task of tax collectors and to stimulate industrial effort. Some observers believe that the psychological effect on workers of the Budget proposals was slight; that, instead, taxpayers should have received a simplification of the tax system and a less penal method in collecting their share of taxation.

It has become increasingly apparent with the elapse of the war that, although normal income, that is, income received from work without undue effort, should be taxed heavily and rewards for extra effort, such as for overtime demanded in war industries, taxed less heavily.<sup>6</sup> But the tax system in Britain has been the reverse. For example, a 5% tax on standard wages might be paid by a worker who paid 20¼% on his overtime pay. Or a man might pay on a normal salary a 20% tax but a 45% tax on his extra earnings. As a whole, however, with these reservations, the tax system has proved satisfactory as it has raised a high proportion of revenue, much higher than in the last war, and it has curbed current purchasing power and inflationary price rises. In addition, it has provided amounts to be paid after the war to tide over the post-war slump and to correct deflationary post-war tendencies.<sup>7</sup>

The distribution of personal incomes in the financial year 1940-41 by ranges of gross income, showing the effects of changes in income tax and surtax from 1938-41, is indicated by the table on page 207.<sup>8</sup>

Although it is difficult to compare the tax burden in the two countries the following table, compiled by the British Information Service, endeavors to make the comparison as fair and accurate as possible, and figures selected in respect to each item have been taken as comparable, that is, they exclude and include the same items. Figures of taxation and expenditure per head are stated but they should be used with caution as the only fair com-

Range of Gross Income	Aggregate Gross Income	Aggregate Net Income with Income Tax and Surtax at			Proportion of Gross Income Retained with Income Tax and Surtax		
	1940-1941						
	£millions	1938-9 rates £ Mns.	1940-41 rates £ Mns.	1941-2 rates £ Mns.	1938-9 rates %	1940-1 rates %	1941-2 rates %
Under 250	3344	3329	3301	3242	99.6	98.7	96.9
250-500	1038	1000	946	883	96.3	91.1	85.1
500-1,000	477	428	391	358	89.7	82.0	75.1
1,000-2,000	320	266	230	203	83.1	71.9	63.4
2,000-10,000	367	259	206	174	70.6	56.1	47.4
10,000 and over	176	88	50	39	50.0	28.4	22.2
Total of above	£5722*	£5370	£5124	£4899	93.8	89.5	85.6

\* Excluding investment income of non-profit making bodies estimated at £64,000,000; if included a total of £5,786,000,000 in the year ending March 31, 1941 would be reached.

parison is of the proportion of national income. The table does not include the figures for the year 1942-3 given in President Roosevelt's Budget message of January 7, 1942 but if the estimates of revenue and expenditure were realized and the net national income rose to \$110,000,000,000 tax revenue would amount to about 33½% of net national income, total expenditure to about 66½% and war expenditure to about 51%. These percentages are similar to those for the United Kingdom in 1941-2. The table showing comparison between the two countries is given on pages 208 and 209.

#### EXCESS PROFITS TAX

Taking the profit out of war has been one aim of the British tax plans but the premise has been much more difficult to carry out than to formulate.<sup>9</sup> The imposition of tax on wartime profits has raised many more problems than has that on total profits as was proved, also, by World War experience. From 1914-21, in fact, the Excess Profits Duty proved to be a very difficult tax to enforce and it remained inefficient during the whole of its existence.

The main problem raised by this type of tax is that of ascertaining the basic standard with which any excess earning capacity may be measured and of ensuring that this standard is a reasonable and a fair one from the angle of both the Government and



Notes: Government revenue and expenditure include, for both countries, such things as social insurance contributions, compulsory war damage contributions, etc., but exclude self-balancing revenue and expenditure, such as Post Office State and local figures which are entered after deducting contributions to and from central funds. Conversions have been done at the average rate of exchange prevailing for the period. \* denotes that the figure is approximate.

- (1) Average of two calendar years concerned.
- (2) Estimated from official figure of £4,415 millions for calendar year 1938.
- (3) Estimated from official figure of £4,300 millions in nine months April-December 1940 (i.e. annual rate of £5,700 mns).
- (4) Latest available estimate.
- (5) Includes only estimated expenditure in the United Kingdom. Figures of total expenditure (all approximated) would be:

	<i>National and Local</i>			<i>War Expenditure</i>	
	<i>National Only</i>	<i>£s</i>	<i>% N. I.</i>	<i>% N. I.</i>	<i>Per Head \$</i>
1940-41	£3,970,000,000	£4,190,000,000	72.3	55.5	2.71
1941-42	4,820,000,000	5,050,000,000	81.5	64.5	337

the taxpayer. The distinction between income and excess profits is difficult to draw, and the years between the last war and this conflict have not furnished a solution to the many problems the latter tax raises.

Sir John Simon's Budget of September 1939 contained an excess profits tax provision which required companies to establish a standard for every business unit and to compare that standard with adjusted results of each following year. The excess profits tax of November 1940 applied to company earnings over £1,000 per year and to all business profits earned since the beginning of April 1939. Originally the rate on profits in excess of standard earnings was set at 60% but in the second Supplementary War Budget the rate was raised to 100%.

Standard profits were stated to be those earned from trading operations (excluding investment income) during one of a number of base periods chosen at the option of the taxpayer. In the case of a company which began operations before July 1, 1936 the standard profit was normally the profit of a standard year or the average of the profits over two standard years as follows:

1. If the company commenced operations before January 1, 1935 the profit for the year 1935, or the profits for the year 1936 or the average profits for either of those years and the year 1937 at the option of the taxpayer.
2. If it were commenced in 1935, the profits for the year 1936 or the average profits of that year and the year 1937 at the option of the taxpayer.
3. If it were commenced between January 1, 1936 and July 1, 1936 the profits of any consecutive period of 12 months ending not later than June 30, 1937.

If the company commenced operations after July 1, 1936 the standard profits were 8% of the capital used, or 10% in the case of any individual or firm or corporation which had directors with a controlling interest. But no company irrespective of the date of organization or its type of organization, could be charged with the excess profits tax if its profit were less than £1,000 or, in the case of a partnership or a corporation, with directors holding the controlling interest, £1,500 per working proprietor, but with a

maximum of £6,000. If the standard profit when calculated, therefore, fell below his minimum standard the taxpayer could take the latter sum for his standard profit. In certain instances the Board of Referees could increase the base year earnings to cover fixed charges, and dividends on preferred and common stock. After the standard profits were established by the taxpayer the Government collected 100% of any excess profits, calculated before income tax, but with interest on debentures deducted. The normal tax was payable on the remainder of the earnings.

A National Defense Contribution, designed to raise funds for rearmament purposes, amounting to 5% on net profits of companies and 4% in the case of single proprietorships and partnerships, had been levied since September 1937. In July 1940 the former was made alternative to the latter, the taxpayer calculating each and paying the lower amount. From May 1940 the excess profits tax reached 100% of all business profits in excess of the pre-war standard.

There have been many complaints of the harsh effects of the excess profits tax upon groups of companies from which maximum war production was demanded.<sup>10</sup> The assertion was made that it tempted companies to evasion or to follow lax methods of cost accounting. The Report of the Subcommittee on Supply Services, rendered in January 1941 and adopted by the Select Committee on National Expenditure, presented recommendations of measures which could be adopted to aid war production and to guarantee a sound business structure for the future. It considered the elimination of the retarding aspects of the excess profits tax to greater war output and recommended that certain alleviations be offered to this tax.

The disadvantages of the excess profits tax appeared to be at the maximum in a company in which present profits bore no relation to pre-war earnings either because of its recent organization or because it had not obtained its share of Government contracts.<sup>11</sup> As an example of the inequity of this tax a motor company, in which the total excess profits tax reached £263,000, only had an entire issued capital of £170,000. In April 1941 the 100% tax, which appeared inequitable when applied indiscriminately to all companies, was alleviated by a 20% credit, repayable by

the Government after the war to aid in reconstruction, and by a concession as to the base year. The 20% return, however, was subject to tax after it was received by a company.

On that date, also, the Treasury agreed to improve the position of those producers who used up their limited resources because of the war effort. This wasting asset clause added certain percentages to the standard profits of producers whose resources, disregarding increased war production, would be exhausted within 50 years. The maximum addition was 30%, allowable if the deposits were exhausted before December 31, 1950. The minimum addition was 5%, allowable if the deposits were exhausted between 1971 and 1990. If the life of the assets were longer than 1990, however, the companies would receive no concessions. This grant to taxpayers has raised the problems of ascertaining which producers are entitled to relief (finally settled on those concerned with nine metals and mineral oil but excluding lead, bauxite, coal and rubber) and how the life of the deposits should be calculated (the Internal Revenue Department adopting a method which includes, besides developed and producing mines and oil wells, the reserves contained in all concessions and options held by individual producers). This method has aroused the protest of producers who state that the inclusion of undeveloped areas in the calculation, besides being practically impossible, defeats the purpose of the wasting assets clause when applied to concessions. These producers feel penalized for maximum production and contend that a 100% excess profits tax on the production of materials with certain reserves reaches outright expropriation. The Treasury countered with the statement that the tax aims at exclusion of war profits and that relief from this principle only should be made if the life of the taxed company is so limited that the increased war production is "suicidal" and that a 20% repayment after the war will strengthen the financial position of producers so they can develop additional concessions later. The problem remains in the controversial stage but it is apparent that taxation should not be permitted to impair the maximum output of producers, that if this occurs the Government must assume the responsibility for production for the duration. This premise has been illustrated in the case of nationalization of the coal industry



and it may be applied to strategic metals and oil if the excess profits tax continues to curtail maximum war production.

The procedure to be followed for companies with wasting assets is as follows:

Companies producing metals and oil of exceptional importance may receive a special allowance as from April 1940. They need:

1. A Treasury certificate to the effect that a larger output is essential, and there has to be ascertained
2. The addition to normal output caused by the war (normal being the standard period average), and
3. The normal (that is the standard period average) profit on this additional output, and
4. The normal life of the mine or oilfield (that is, reserves as at the end of the standard period, divided by the average output in the standard period).

Then the following percentages of 3. above may be added to standard profits:

1. Where life would normally end 1946-50, add up to 30% of normal profit on abnormal output
2. Where life would normally end 1951-60, add up to 20% of normal profit
3. Where life would normally end 1961-70, add up to 10% of normal profit
4. Where life would normally end 1971-90, add up to 5% of normal profit.

In relation to the application of the excess profits tax to all companies the following adjustments are permitted:

1. Capital changes

Standard profits are increased by 8% of increases in the average capital employed or reduced by 6% on capital lost.

2. Exceptional depreciation

Up to 10% of net cost may be allowed provisionally on assets provided after 1937 that they, as a result of the war, have fallen in value below their net cost through obsolescence, etc.

3. Reliefs—deficiency or losses

A company obtains relief for the amount by which actual profits

fall short of standard profits. A loss yields a deficiency equal to the standard plus the amount of the loss. Relief is given by repayment of excess profits tax paid in the past, and deficiencies in excess of any repayment may be carried forward against future excess profits tax liabilities until exhausted.

4. Post-war refund (already discussed).

Profits, for excess profits purposes, are as defined for income tax purposes, war damage premiums are not allowable as an expense, interest on borrowed money is not considered as an expense in the chargeable or the standard period, cash and securities not employed in the business do not rank as capital employed to the extent that they exceed the requirements of the business, and excess profits taxes are expenses for income tax purposes.

The question has arisen during the enforcement of the excess profits tax whether it has killed the profit producing power of industry. The hope has continued to be expressed that the Treasury will devise a new system of raising taxes which will be better suited to war demands and conditions, one which will consider the survival of the taxpayer as its major consideration.

That this tax has proved a deterrent to war production is apparent from an analysis of the results for 1939 and 1940 for 31 medium and small engineering companies, although in the latter period the rate for this tax was below 100% for the entire year. The profits for these companies declined 15.2% in the first year of the war, in spite of increased productive effort compared with 1939. In the case of six companies their profits for 1941 declined another 22.1%. In many companies a fall in net profits of 10% was registered after a year and a half of war. Gross profits, published in 1940, for 2,260 business companies, covering nearly all the major industrial, commercial and financial enterprises, amounted to £411,200,000, an increase of 9.2% over the aggregate profits of the preceding year. But the profits which remained in the possession of the companies totaled only £208,100,000, 4% less than in the preceding year. Although published profit figures prove difficult to analyze, partly because the total published is reduced by undisclosed reserves for depreciation and for other contingencies, and partly because the methods of accounting for excess profits taxes and other taxes vary greatly. The *Economist*,

however, has analyzed profits for 1941 and drawn the following conclusions:

1. Total profits, after providing for excess profits tax, depreciation and some part of income tax, rose by over 3% to £391,428,740.
2. Net profits, after meeting a substantial part of the taxation charge, though not its entirety, fell by more than 10% to £175,650,557.
3. Profits by industrial groups in total as well as for net profits of typical armament groups fell in 1941. Profits of the main consumption groups showed some stability though they also fell. Some groups, such as rubber companies, shipping, telegraph and textiles, showed profits which depended on exceptional causes which will not be present in the year 1942.
4. Dividends to the extent of 65% of gross profit were distributed to ordinary shareholders as was true in 1940. The average rate of dividends on ordinary shares was 10.6% before income tax compared with 10.9% in 1940. For the main industrial companies it was 9%, compared with 10% in 1940.

An analysis of the accounts of 500 leading companies, published during the first quarter of 1941, but covering operations during 1940, showed a 5% gross increase in earnings over 1939, but a 10% net decrease in profits. Shareholders, as a whole, because of this tax, have experienced a continuous decline in rates of earnings and dividends of their companies since the inception of war.

If excess profits taxes remain at their present high level, business managements may not wish to extend the operations of their companies or to exert themselves to keep down costs and to secure the desired war production.<sup>12</sup> It was hoped by the press that the 1942-3 Budget would attack this problem but in it the excess profits tax remained at 100% with the post-war credit of 20%. From April 1942 onward, however, corporations had a legal claim on the Government for the 20% they had been promised after the war, provided that they used the money for business purposes and not for the payment of dividends.

At the present time the computation of profits for the purposes of excess profits taxes and income taxes utilizes the same principles, subject to certain modifications. Detailed rules have been made concerning the computation of capital when this is required

and, in certain cases, if the standard profits are inadequate, the tax authorities may permit them to be increased. Income tax paid cannot be deducted when calculating the profit for any period for the purpose of the National Defense Contribution or Excess Profits Tax. However, when the profits are computed for the purposes of income tax sums paid or payable for the two taxes named above can be deducted as an expense. Companies first calculate the amount of the Contribution or Excess Profits Tax which is payable and deduct that from the profit as computed for the purposes of income tax, calculating the liability for income tax on the result. For example, a corporation formed before 1935 and paying excess profits tax normally would be left with 50% of its standard profits.

There are two schools of thought prevalent in Britain today relative to how war production could be aided by finance. The first believes that the best way to secure maximum efficiency is to provide cash incentives to managers and workers. In carrying out this objective it would reduce the excess profits levy and remove all restrictions from increases in earnings. As the removal of restrictions, however, would lower many of the controls erected during the war over profits in general incentives might be provided, instead, and a system of industrial bonuses offered to workers. The second school would use the entire population in the war effort, assigning ranks and rates of pay and completely separating income from functions. Many observers feel, however, that it is too late to carry out this approach to the situation which, in the long view, might envisage a system under which labor received from the Government standard earnings which bore no relation to hours worked, profits at a fixed rate were paid out by the Government, and contract prices did not consider either factor although individual provision was made for cash bonuses to individuals who had proved efficiency of operation. These two schools of thought offer some indication of the trend of thought relative to profits and excess profits. The British excess profits system, however, contrary to that in the United States, permits industrialists to carry post-war losses back to offset war profits and provide refunds on the basis of these carry-backs.

## PURCHASE TAX

The wholesale purchase tax, placed in operation on October 21, 1940, represented the first imposition of this type of levy in British history. It produced £26,000,000 in the five months ending March 31, 1941, the increase in the cost of living totaling about 4%. Under it a tax was imposed at the point where wholesalers sold goods to retailers, and this method permitted simplicity of collection and allowed the export trade to remain tax free.

A levy of  $16\frac{2}{3}\%$  to  $33\frac{1}{3}\%$  was applied in the first case to essentials and in the last to luxuries. Necessities included: clothing, furniture, household goods, office equipment and certain drugs. Luxuries brought under tax were: furs, china, domestic cooking and heating equipment, silks, jewelry, haberdashery, musical instruments, clocks, radios and typewriters. Articles exempt from tax were: food, fuel, agricultural machinery, light, water, rent, children's clothing and special drugs. Articles in daily use, such as beer, spirits, tobacco and matches were taxed, also, and postal rates were increased.

The following table provides examples of the heavy burden of indirect taxes at the end of 1941 with data provided in both British and American currency:

<i>Article</i>	<i>Unit</i>	<i>Current Retail Price</i>	<i>Amount of Duty Included in Price</i>
Tobacco:			
Cheapest pipe tobacco	ounce	1s 3½d (26¢)	11½d (19¢)
Cigarettes (ordinary)	packet of 20	1s 6d (30¢)	11d (18¢)
Cigarettes (cheapest)	packet of 20	1s 1d (22¢)	8½d (14¢)
Beer (average strength)	pint	9d (15¢)	4½d (6¢)
Whisky	bottle	17s 6d (\$3.50)	11s 4½d (\$2.28)
Sugar (granulated)	pound	4d (7¢)	2½d (4¢)
Tea	pound	2s 6d (50¢)	6½d (10¢)
Matches	box of 50	1½d (3¢)	7d (12¢)

Purchase taxes were levied by the Government to curtail consumption of certain articles, to increase personal savings, and to provide that workers with £5 or less income made a contribution to the war. With funds secured from them damage compensation caused by air raids was paid to citizens in the low income brackets, and citizens were reimbursed for essential furni-

ture, personal clothing and other articles if their incomes were below £400 if they had children, or below £250 if they had no dependents. Purchase taxes have been collected rapidly and have proved doubly effective for the reason that of all taxes the purchase levy has had the smallest lag in its collection. The yield of the purchase tax was estimated at £40,000,000 for the year 1940-41 and £110,000,000 in a full year. The date at which the tax came into force, however, was delayed later than had been expected and the amount actually collected in its first year of operation amounted to about £26,000,000.

The 1942-3 Budget raised the purchase tax on luxuries from  $33\frac{1}{3}\%$  to  $66\frac{2}{3}\%$  indicating that direct taxes had reached their limit. As this type of tax cannot be evaded by involved accounting systems and principles, luxury production and consumption of luxury articles were discouraged. The main aim of the Treasury was to absorb all excess spending power in the hands of citizens and to avoid any measure which would retard the war effort. Indirect taxes enacted were designed to absorb varying amounts according to the standard of living of the individuals but it was apparent that the public would be able to pay these taxes and to lend additional sums to the Government for the prosecution of the war. It was suggested that other Government Departments should cooperate with the Chancellor of the Exchequer through stricter rationing and the exercise of the other powers granted by Parliament to the Cabinet.

The rise in indirect taxes made the levy of  $66\frac{2}{3}\%$  on the wholesale price of luxury articles, including cosmetics, silk dresses, furnishing materials, fur coats, clocks, watches, jewelry, musical instruments and radio phonographs (but not ordinary radios), cameras and photographic materials, trunks, suitcases, wallets and purses, hats, footwear, ties, handkerchiefs, gloves, carpets, cut-glassware, mirrors, hair-waving machines, electric shavers, garden furniture, and toilet articles, except brushes, combs, razors, towels, toilet paper, soap and toothbrushes. The tax on tobacco was increased 10s in the pound so that cigarette prices rose 3d (5¢) for ten, and the usual packet of cigarettes rose from 1s 6d (30¢) to 2s (40¢). The new tax on beer was equivalent to 2d ( $3\frac{1}{2}$ ¢) a pint, while whisky cost another 4s 8d (93¢) a bottle

making the price 22s 2d (\$4.43). Increases in entertainment prices ranged from 3d on a 1s 3d (23¢) movie or legitimate theatre seat to 10s 7d (\$2.12) on a £2 2s (\$8.40) ringside seat at a boxing tournament. Cricket games and rugby matches, also, came under the entertainment tax. No purchase tax was levied on utility boots and shoes which have been prepared to be sold on the market in the near future. All the new rates, except the entertainment tax which began to operate on May 10, were imposed on April 15, 1942.

Sir Kingsley Wood, Chancellor of the Exchequer, in stating that many additional taxpayers had been brought within the income tax structure, indicated that the only new tax which could be made would be exacted against "articles in common consumption which lend themselves to my purpose without in any way forcing me to impinge upon wartime necessities of life. . . . They are commodities which a very large number of people desire to enjoy, but I must help through taxation my colleagues who are trying to keep demand and supply in better equilibrium." He estimated that the nation had spent £330,000,000 on beer last year with the tax realized amounting to £48,000,000 in revenue in a full year, and he estimated that £340,000,000 would be spent on the consumption of tobacco. Members of the forces were permitted to buy limited quantities of pipe tobacco and cigarettes at the old prices.

Small criticism of the purchase tax was voiced by the House of Commons and the Press. Arthur Greenwood, Laborite leader of the opposition, declared:

Speaking as a consumer of some of the commodities in question I am perfectly prepared to face my part of this burden, provided the people of this country really do feel that an honest and ruthless attempt is going to be made to kill black marketeers, to kill wasteful spending and to mobilize our resources with the maximum efficiency.

Lord Kindersley, president of the National Savings Committee, also, spoke favorably of the increased purchase taxes and said that they "should bring home to the nation as a whole the imperative duty of spending a minimum on unessential goods." The Wholesale Clothing Manufacturers Federation approved of the decision

to remove the tax on new utility cloth and clothing and stated that it would be of "great assistance in every selling scheme and will have an immediate reaction on the cost of living." Such criticism as was voiced came from those who made the articles brought under the tax although because most of the articles were scarce anyway and since the tax could be passed on to the public their comments did not seem justified.

#### REVENUE FROM TAXATION

In this war no British citizen is permitted to make a gain. In certain trades and industries in which wartime demands are at a greater rate than those of peacetime gross profits have increased but in the majority of cases they have declined. The general tendency has been toward greater equality in wages and salaries, even not considering taxes, for many large income earners in peacetime, such as barristers, financiers and actors, have suffered a severe decline in earnings. On the other hand wage earners have received increases in standard rates of pay and, in many cases, they are earning overtime rates which are higher than standard hourly rates. At the time of the presentation of the 1942 Budget the Chancellor of the Exchequer indicated that 85% of the net purchasing power left in Britain after payment of income taxes now remains in the hands of persons with gross incomes of less than £500 a year.

The excess profits tax has removed the whole additional profit made by companies above their pre-war standards. Income tax and surtax on high incomes are heavy. Estate duties, payable on death, have risen to 65% on estates over £2,000,000. The direct tax system has ensured that the rich make a large contribution to the war effort and that accumulation of war wealth is impossible.

The four War Budgets preceding April 1942 imposed new taxes amounting to £788,000,000 in a full year; this is more than the annual average of the whole tax revenue in the ten years preceding rearmament. The total tax revenue raised to the 1942-3 Budget was nearly £1,000,000,000 more than in the 1938-9 fiscal year. Income taxes by 1942 had reached a return of £5,214,000 a day against £3,988,500 secured at the beginning of 1942, the main inland revenue items for the years ending March 1934-1943 follow:



<i>Year ending March</i>	<i>Income Tax</i>	<i>Surtax</i>	<i>Estate Duties</i>	<i>Stamps</i>	<i>Nat'l Def. Cont.</i>	<i>Excess Profits Tax</i>	<i>Total</i>	<i>Motor Vehicle Duties</i>
	£ Mn	£ Mn	£ Mn	£ Mn	£ Mn	£ Mn	£ Mn	£ Mn
1934	228.6	52.4	85.3	22.6	....	....	391.5	30.7
1935	229.2	50.9	81.3	24.2	....	....	388.4	31.5
1936	237.4	51.2	88.0	25.8	....	....	404.6	30.8
1937	257.0	53.4	87.9	29.0	....	....	429.0	32.7
1938	297.9	57.3	89.2	24.2	1.4	....	471.7	34.6
1939	335.9	62.5	77.4	21.0	21.9	....	520.3	35.6
1940	390.1	69.8	77.7	17.1	26.9	....	582.9	34.1
1941	523.9	76.1	80.8	13.7	24.1	72.1	791.7	38.0
1942	769.7	74.9	90.9	14.1	21.9	247.2	1219.5	38.4
1943 (est)	913.0	78.0	90.0	15.0	(42.5)		1522.0	34.0

The revenue derived from customs and excise duties at the same dates is shown by the following table:

<i>Year ending March</i>	<i>Tobacco</i>	<i>Beer</i>	<i>Spirits</i>	<i>Petrol and Oil</i>	<i>Sugar, Etc.</i>	<i>Tea</i>	<i>Total</i>	
							<i>Customs</i>	<i>Excise</i>
1934	67.5	58.9	33.4	40.4	12.2	3.9	179.2	107.0
1935	70.7	58.7	32.4	42.3	11.8	3.9	185.1	104.6
1936	75.0	60.8	34.9	45.1	11.6	4.1	196.6	106.7
1937	77.3	62.7	36.2	47.8	12.2	7.8	211.3	109.5
1938	82.8	65.7	35.8	50.2	11.9	7.3	221.6	113.7
1939	84.8	65.6	35.7	58.1	13.0	10.9	226.3	114.2
1940	117.7	78.7	40.7	54.2	27.7	11.7	262.1	137.9
1941	172.8	139.1	45.5	47.6	31.5	13.4	304.9	224.1
1942	221.1	164.6	46.8	54.4	31.3	12.9	378.4	325.7
1943 (est)	304.0	204.0	58.7	54.0	29.0	11.0	458.3	366.7

The major portion of the tax increase has been secured from income tax and surtax, but some has come from purchase taxes. The numerous increases in types and rates of levies, made during the progress of the war, have brought home to all civilians that taxes no longer can be raised through confiscatory levies on the rich or by fancy taxes on profiteers, but, instead, largely by means of straightforward, ordinary taxes on all citizens. The British, in contradistinction to the Americans, have realized that high progressive surtax rates eventually reach the point of diminishing returns and finally do not produce large revenues. This opinion is shown by the fact that in the 1941-42 British Budget individual

surtax revenue was estimated at  $10\frac{1}{2}\%$  of the revenue from income tax (£80,000,000 versus £756,000,000), with actual surtax receipts less than 10%, while in the 1942-43 Budget the estimated surtax was stated at  $8\frac{1}{2}\%$  of revenue from income tax (£78,000,000 versus £915,000,000). The lesson indicated by British experience is that only by increasing normal taxes and by reducing personal exemptions can reserves be increased materially. The British plan of levying a high normal tax and a moderate surtax is contrasted with the American method of imposing a low normal tax (6%) and in the upper brackets a high surtax. While there are many differences in the conception of taxable income between the two countries, in the administration of the tax laws, in the methods of computation, and in the relation of personal and corporation taxes in the total tax program it is no doubt true that America might well follow Britain's example of broadening the tax base by increasing normal and surtax rates.

One of the most important aspects of the last Budget was the Chancellor's warning to the British people that all wartime controls will not be removed immediately when peace comes. He indicated that consumption would continue to be controlled until an adequate estimate of purchasing power for peacetime could be made and that the release of pent-up demands would have to be at a rate appropriate for a high level of steady employment. These indications of events of the future have assumed greater importance in the light of the necessity of controlling consumption, during the war period, by forced and voluntary savings. All citizens had felt that perhaps this control must extend after the war's conclusion but this was the first clear-cut statement of the fact by a Government official. Emanating from this first premise is another which states that while wartime levels of taxation might well be lowered after the war ends, they must remain sufficiently high to provide a restraining force to consumption at that time in order that disruptive influences in the financial structure of the nation may be controlled and hardship avoided for large groups of citizens.

## CHAPTER VII

### CURTAILMENT OF CONSUMPTION

From the moment of declaration of war the British Government sponsored a progressive and consistent policy to reduce consumers' goods available on the market. This procedure was necessitated by its desire to free foreign exchange for vital purchases of war materials and civilian necessities abroad, to permit the export of goods not required for home use, and to ascertain that war earnings flowed into War Loans and not into the consumers' goods market.

The inevitable increase in war costs had the natural accompaniment of expansion of earnings and profits available for taxation and borrowing. As it was apparent that taxation, as a method of restricting public spending, reached its limit in the 1941-2 Budget, a view substantiated by the fact that no increases were made in income tax rates in the 1942-3 Budget, the Government was called upon to devise and enforce a method of stabilizing wages, and of restricting the activities and expenditures of its citizens. The drastically increased rates of tax, imposed by successive War Budgets, and the encouragement given to the war savings campaign by their provisions, thus were proved inadequate to solve the problem of reducing the spending power of the public to the level required by the curtailment in the supplies of consumers' goods.

#### METHODS TO SECURE CURTAILMENT

Various other methods conceived by the Government to curtail consumption included setting of maximum prices for specified goods and services, from the Spring of 1941 under the Goods and Services Price Control Bill; preventing of profiteering by limiting increases in prices of goods to actually ascertained cost rises,

since April 1939 under the Prices of Goods Act; and restricting loans. Although total consumption by October 1941 was 17-18% lower than at the end of 1938, the Government had been unable to reduce consumption sufficiently so that it had to resort to direct rationing of food and clothing. Rationing was conceived to exercise the anti-inflationary functions of restricting the amount of goods that a civilian could purchase, of conserving shipping space, materials and manpower for war purposes, and of assuring the fair distribution of limited supplies. As a direct result of rationing, heavy sales taxes and other restrictions non-food retail shops have suffered a severe reduction in trade, have lost about one-half of their labor force and have closed down about 25% of their space. Production of essential articles for civilian consumption, other than food, by September 1942 did not exceed 20-25% of the pre-war value of these commodities.

From December 1940 vital foodstuffs were rationed and their prices placed under control, but no central organization was set up to allocate non-food supplies to different districts. Large expenditures continued to be made by citizens upon unrationed food, a situation which led to an increase in the cost of living and the spending, rather than the saving, of incomes. In November 1941 a points system of rationing was introduced, and later adopted by the United States for the proposed distribution of meat, under which consumers were given freedom to shop for certain commodities and to make a choice of purchase. In May 1941 all clothing, footwear and knitted wear were rationed by coupons, acceptable in any store and usable at any time and in any quantity up to a maximum of 66 per consumer per year. Later clothing rations were reduced to 25% below the level on June 1, 1942 with 60 coupons allotted for a period of 14 months. This British system of coupon rationing has been applied in the United States to sugar, coffee, gasoline and fuel oil.

The Government has considered the control of the prices of all goods for sale on the market. As such a plan would limit the total amount of money which could be spent, the aggregate net income in excess of this figure would either be spent in ways which would not compete for the current volume of goods or be

saved. Adoption of this procedure would represent the final step in the wartime control of consumption by the Government.

#### GOVERNMENT POSITION

An inventory of food, coal and clothing was made before the inception of war but wholesale stocks in the hands of retailers were not accurately counted. The Government encouraged an accumulation of one week's supply of food by all civilians. It set about securing an increase in the output of agricultural products at home and an enlarged supply secured by importation from abroad. Luxury consumption was reduced early in the war although the human factor was considered in all limitations imposed. For example, the reaction of civilians to the withdrawal of certain luxury fruits and vegetables from the market, and the effect of such withdrawal upon their health, received attention. Great saving was realized by standardization of articles and the withdrawal of duplicate goods from the market. In the move to reduce consumption, nutrition experts were called in by the Government to determine those foods which were absolutely essential to the maintenance of the health of the nation.<sup>1</sup> The basic ration which was adopted on the basis of their study was smaller but much better balanced than the pre-war diet and civilian health improved noticeably under it.

The production of articles of clothing was reduced to a minimum and standardized to a marked degree. Wool was rationed at the raw material end, and sales of cotton, rayon and linen were controlled as the goods moved from wholesalers to retailers. A large number of durable goods, such as automobiles and household equipment, was drastically curtailed and when stocks on the market were exhausted they were not replaced. For the period from June 6 to November 30, 1940 retailers were ordered to curtail their purchases of certain durable luxury goods by one-third on the basis of the value of those made during the six months ended November 30, 1939. This curtailment of consumption was accompanied by a simplification of the distributive set-up, a move that freed large resources of man, plant and raw materials.

Citizens were urged by their Government to save more and to

spend less; to accept the curtailment of materials and the rationing of articles in view of the demands of the war economy. From the inception of war until the first quarter of 1941 it has been estimated that consumption per head of all goods fell about 13%; the decline in food alone totaled from 3-8% whereas the decrease in clothing and household goods totaled 35% each. When it is realized that wages in the first quarter of 1941 were 20% above the level of the immediate pre-war months it is interesting to note that, after allowing for the increase in the price of groceries of 43% in the first 18 months of war, the cut in real consumption (partly consisting of a decline in quality) amounted to about 30%.<sup>2</sup> To examine one month only in 1941, namely July, is to discover that retail sales, exclusive of food, declined 15.9%.<sup>3</sup> The economist, Nicholas Kaldor, has estimated that total consumption at the end of 1940 was 10% lower than at the end of 1938. In October 1941 it reached a level 16-18% below figures for 1938. All areas throughout Britain exhibited the same trends, that is, the rise in the price level of consumers' goods and a fall in the volume of sales.

During the Fall of 1941 Francis Meynell was appointed by the Board of Trade to act as its adviser on consumers' needs. The problem of setting up an organization which would constantly adapt supply to demand, within the limits of Government policy, had been recognized by the Board early in 1941 when 20 Area Distribution Officers were appointed to supervise and check the operation of the Limitation of Supplies plan. Mr. Meynell's task was outlined as that of cooperating through the Area Officers and reporting on cases of exceptional scarcity, inaugurating methods of relieving local shortages in target areas, and furnishing information concerning the revision of quotas to the Board. In this manner the gap left by the elimination of free prices in a free market was filled, demand no longer was evidenced by money, and shortages only indicated that consumption up to the permitted limit had occurred in certain areas. Constant and accurate information as to the type and intensity of potential demand was afforded the Board and legitimate requirements of consumers received satisfaction.

During peacetime price movements determined what commodi-

ties were produced and in what quantities they were available. In the midst of war, however, the market could not be permitted to remain free; it has, instead, been controlled by national need and Government fiat. The role of the Government was that of converting the nation's economic resources to war purposes and restraining civilians from using these resources how, when and where they wished.

In 1938, the last pre-war year, the Government used only about one-fifth of the gross national resources of Britain, permitting the remainder to be devoted to personal consumption. By the end of 1940, however, about one-half of these resources was not open to civilian consumption, and a year later more than half of the total was consumed by the war effort, not by civilians.

The following table indicates the percentages of gross national resources devoted to personal and Government consumption in 1938 and 1941:

	<i>Year 1938</i>	<i>Year 1941</i>
Personal consumption	81	48
Government consumption	19	52
	<hr/>	<hr/>
Total	100	100
	<hr/>	<hr/>

In order to secure this diversion of resources the Government has resorted to two methods: first, preventing citizens from producing articles or providing services which the nation did not require (this has been accomplished by means of direct control of labor, raw materials and industrial capacity), and second, and coincidental with the first method, rationing articles produced and imposing taxes. Other means, except voluntary savings, of securing the second principle have been devised but in the main as the war has progressed the financial methods of curtailing consumption have become relatively unimportant compared with the direct methods of stopping, diverting and rationing goods. In some instances, however, an astute combination of direct and indirect methods has proved satisfactory. For example, the Government has secured women from the domestic service ranks for war production by the direct method of calling some of them up and by the indirect method of taxing their employers so that the

latter can no longer afford servants. These methods, singly and in combination, have proved important in preventing an inflationary price rise.

Preceding chapters have considered the control of labor by conscription for the three fighting services, the construction of the Schedule of Reserved Occupations, the registration and call-up of women workers, the concentration of industry on the most essential production, and the curtailment of movement of labor by Essential Work Orders. They have discussed, also, the direct control of raw materials and the allocation, by the Government, of vital materials. The factors of machine tools and factory and storage space, in addition, have been placed under Government control, and unessential supplies have been restricted as to importation and, in some cases, stopped altogether. Rationing of the ultimate consumer has been applied to food, clothing, petrol and a variety of other articles to be discussed later in this chapter. The expenditure on non-essential capital construction has been placed under Government dictation by the following measures:

1. Local authorities cannot borrow without the approval of the appropriate Government Department, and all new issues are subject to permission of the Treasury.
2. Borrowing through banks is checked by the voluntary action of the banks themselves. All requests for loans are scrutinized from the point of view of their effect on the national effort.
3. No citizen is permitted to spend more than £100 on building construction without obtaining a license. House building, except for housing war works, has ceased.
4. Many kinds of machinery can only be purchased by Board of Trade license.

All these restrictions have prevented undesirable investment and in addition to them there have been imposed indirect financial measures to curtail the civilian demand for consumers' goods and services. These have taken the form of the imposition of direct and indirect taxation and the stimulation of voluntary savings previously discussed. Increases in the rates of income tax and surtax, and reductions in allowances on the former, have lowered



consumption in the lower ranges of income, the section of the population which consumes the most, as can be seen from the following table of the tax for a single person, with income wholly earned, under the 1939 and 1941 Budgets:

<i>Income before Deduction of Income Tax</i>	<i>Income after Deduction of Income Tax</i>	
	<i>Budget of 1939 (last pre-war Budget)</i>	<i>Budget of April 1941</i>
£125	£125	£114
150	148	132
200	195	167
250	242	203
300	287	234
350	326	261
400	365	289

By imposition of purchase taxes, already described, non-essential goods were increased in price and their consumption was reduced. The following table indicates how the burden of taxation has been increased:

<i>Tax Revenue—Central Government Budget Only</i>	<i>1938-9</i>	<i>Est. 1941-2</i>
Inland Revenue*	£520,000,000	£1,143,000,000
Customs and Excise and Motor Vehicle Duties**	376,000,000	616,000,000
Total	£896,000,000	£1,759,000,000

\* Includes income tax, surtax, estate duties, stamps, excess profits tax, etc.

\*\* Includes indirect taxes such as the taxes on drink and tobacco and purchase tax, taxes on petrol and motor vehicles, etc.

It has been estimated that, in 1940, about one-third of the net national income was subject to be paid in taxes of all types. These taxes included, in addition to the tax revenue of the Central Government listed above, rates levied by local authorities, compulsory contributions to social insurance schemes, and certain contributions payable to war risks insurance funds. The proportion in 1941-2 was about two-fifths.

Non-essential consumption was also restricted by voluntary savings organized by the national savings movement. In order to ascertain that the limited supplies of essential commodities which were still available were distributed among citizens in a fair manner the following methods were followed:

1. Levying heavy direct taxes to restrict the purchasing power of citizens most capable of bearing the burden.
2. Rationing of certain articles, such as food and clothing, to ensure that all citizens received their portions.
3. Setting of maximum price orders to prevent increases in the price of foodstuffs, and the payment, by the Government, of subsidies to keep down the cost of living.
4. Increasing social security benefits to offset rises in the cost of living, and extending certain aspects of the social services, such as unemployment and sickness benefits and old age pensions.

#### RATIONING

The Government was unable to secure the correct reduction in the volume of consumption by the imposition of heavy taxes so it had to resort to direct rationing of certain essential commodities, such as food and clothing. By adopting such a course it assured that all segments of the population, irrespective of their incomes, would receive the essentials of life in quantities and at prices considered equitable. In addition, it maintained morale among producers. A rationing plan had to be adopted, also, by the United States to realize the same objectives.

As the war imposed greater restrictions on goods available for purposes of personal consumption the plan was adopted of classifying articles into necessities or luxuries. If an article were placed in the latter category it was reserved for the export trade and no price control was instituted for it. If it were considered a necessity, however, a maximum price was established for its sale. As only 10% of all goods required for consumption were produced within Britain at the inception of war, the differentiation into the two categories required minute and constant survey of the import market.

Extension of rationing and limitation of supplies to purchasers of consumers' goods were put into effect and divergencies between different units of an industry, or between different industries, were considered by the authorities. Raw material controls were used to reduce private investment to a minimum by refusing licenses for raw materials to any individual who did not possess a contract reference from a Government Department. These controls served as an indirect means of rationing private consumption and of regulating raw material prices. The rationing plans carried out by the Ministry of Food and the import controls devised by the Ministry of Supply were correlated in order that overlapping and waste were avoided and the maximum amount of productive effort devoted to export goods.

The purpose of all schemes of rationing introduced in Britain has been conceived to be the curtailment of private consumption at the moment when the war effort became most intense, the moment at which the use of materials and labor imposed the greatest strain upon existing supplies. Rationing, when imposed at this time, secured the concentration of all resources upon the war effort. It has been viewed as the real remedy against inflation, as if it were introduced comprehensively it would prevent rising prices, depletion of supplies, and improper distribution. More than one observer, however, has stated that only by a truly comprehensive control of the retail market for necessities of all kinds, foodstuffs and non-foodstuffs included, would it be possible to ensure that all citizens were provided with essential commodities.

The policy of rationing of food, started early in 1940, after a period of four months of war, in which the price of foodstuffs rose 14%, later was extended to cover clothing. The next move may be to close the gaps in the rationing scheme in operation and to extend the program to unrationed food, at the present time covering two-thirds of the expenditure on food, drink and tobacco.<sup>4</sup> Rationing of retail expenditures on these items would operate by a method under which when a shopkeeper purchased these foods from a wholesaler or manufacturer he would be required to surrender coupons for the amount representing their retail value. Restaurant meals would be included in the plan to

ration food, but the total value of coupons surrendered would cover only the retail value of the ingredients.

The dangerous aspect of an increase in purchasing power without a corresponding increase in the supply of goods on the market has become more apparent with the elapse of the war. To date no completely effective control has been imposed over all money available for expenditure. If the Government desires to avoid an uncontrollable price rise in the future it will be under obligation to prevent incomes from being spent by establishing maximum prices for all consumers' goods.

After considering the various plans offered for extension of rationing the Government might decide to adopt the policy of rationing commodities by groups with a global ration fixed in terms of value rather than of quantities, as has been suggested by the Oxford University economist, M. Kalecki.<sup>5</sup> Under this plan it would ration goods by groups of commodities between which the consumer would be permitted to make a choice. Or rationing might occur by price, each consumer being allowed to spend a given sum per week or per month upon all or any articles included in the group. It has been pointed out by another economic authority, J. J. Polak, that once the global ration was fixed it would be possible to remove the control of prices for, as the total amount which could be spent on the group of scarce commodities would be established, no general price rise could occur, and rises in some commodities would be compensated for by declines in others.<sup>6</sup> Under the plan each consumer would be free to distribute his personal consumption and that of his family within the total limit allowed. After the war the global ration could be increased to keep pace with increased quantities of consumers' goods placed upon the market, and later it could be abandoned. As the Government expenditure decreased during the post-war period, excess net incomes over the ration limit would provide industry with funds for reconstruction, and the Treasury with money to settle short-term debts and to reduce bank deposits to a peacetime basis.<sup>7</sup>

When the total rationing picture is considered, including the withdrawal of millions of persons of both sexes from their customary occupations, the reduction in food and luxury imports, and the curtailment of the supplies of raw materials allotted to

the manufacture of civilian goods, Britain has accomplished a great deal without exposing civilians to unnecessary hardship. Great credit is due the Government for its formulation of plans to secure the equal distribution of essential foods and other necessities. Commodities, other than food which will be discussed later, have been rationed on a per head basis, on a bulk basis, or placed under license control. Changes in rations have been made by authorities, from time to time, as additional supplies of goods could be made available or as further conservation of workers, shipping space and materials was deemed necessary in view of the war effort. For example, the rationing of soap was announced in February 1942 to stabilize consumption in homes at about 80% of its present use and to save 50,000 tons of precious shipping space annually. By means of a coupon system each person received weekly: four ounces of household soap, three ounces of toilet soap, three ounces of flakes or chips, or six ounces of soft soap and six or 12 ounces of soap powder, depending on quality. Laundries, hotels, factories and other buyers of large quantities were permitted withdrawals equivalent to an average for the last six months on a permit basis. Certain soaps, such as shaving, liquid, scouring, shampoo and dental soaps, were exempt from the rationing order.

Drastic rationing of tires and petrol was imposed during the Spring of 1942. In the case of the former only vehicles vital for the war effort were permitted to have new tires; the latter restriction reduced rations one-sixth under the basic ration for the months of February, March and April 1942. Private owners of automobiles, with 20 horsepower engines, were permitted to receive 20 gallons for a period of three months. Rationing of fuel, including gas and electricity, was started in the Summer of 1942 on a points system by which each household and each person received a certain number of basic units over a certain period of time, each person being permitted to use his units in any manner he wished during the period specified.

A graphic portrayal of rationing restrictions can be obtained from the following tabulation of supplies for the British housewife:

## I. THE GOVERNMENT ALLOWS

HER

under the national rationing plan:

*Meat:* 1s 2d. worth*Fats:*

Butter 2 oz.

Margarine 4 oz.

Cooking fat 2 oz.

*Cheese* 3 oz.*Eggs* 1 when in supply*Milk* 3 pints*Sugar* 8 oz.*Tea* 2 oz.*Canned Foods:*

Salmon (16 pts.

 $\frac{1}{2}$  lb.)

Sardine (12 pts.

 $\frac{1}{2}$  lb.)

Spam (20 pts.

small tin)

Pineapple (8 pts.

 $\frac{1}{2}$  lb.)(and other canned  
meat, fish, fruit  
and certain vege-  
tables in ratio)Milk (4 pts. small  
tin)*Other "Points" Food:*

Rice (2 pts. 1 lb.)

Cereal (2 pts. pkt.)

Dried Fruit (6 pts.

1 lb.)

*Jam, Marmalade or Syrup* $\frac{1}{2}$  lb. monthly*Soap:*4 oz. kitchen bar  
soap

3 oz. toilet soap

1 pkt. soapflakes

(3 oz.)

1 pkt. soap powder  
(6 oz.)III SHE IS LUCKY ENOUGH TO  
FIND

occasionally:

1 pkt. of needles

1 refill for her lipstick case

Crocery to replace breakages

1 broom

1 nail brush

1 bottle of olive oil

1 face flannel

1 pkt. of hairpins or bobby pins

1 kettle

1 bucket or dust-pan

1 pot-scrubber or some wire wool

1 pkt. hooks and eyes

A bundle of kindling wood

A bar of chocolate

A mincing machine

Black lead for the stove

1 pkt. of hair shampoo

A comb

A poker or fire-irons

A pair of scissors

12 clothes pegs

A pot of face cream

2 coathangers

An ironing board

A doormat

Repairs to watch or radio (usually  
six weeks to wait)24 points  
per month  
to be  
divided  
as desiredper month  
(4 points)

## II HER SHOPKEEPER GENERALLY SELLS HER

(in order that his stocks may go round all his customers) limited amounts of:

Matches (say 1 box per week)  
 Tinned soup (say 1 tin weekly)  
 Candles (say  $\frac{1}{2}$  lb. monthly)  
 Sauce (say 1 bottle monthly)  
 Salad cream (very rarely)  
 Mustard (say small tin monthly)  
 Biscuits ( $\frac{1}{4}$  lb. when they come in)  
 Cigarettes (10 daily, whatever brand is in)  
 Spirits ( $\frac{1}{2}$  bottle gin or whisky monthly)  
 Wines (1 bottle monthly, if available)

## IV SHE CANNOT BUY ANYWHERE

Oil stove  
 Aluminum saucepans  
 Face tissues  
 Grapefruit, lemons or bananas  
 Dairy cream  
 Rubber hot water bottles  
 White bread  
 Elastic

*Note:* Section I deals with the housewife as one person; her rations would be increased according to the size of her family.

## LIMITATION OF HOME TRADE ACT

In June 1940 the Limitation of Home Trade (Supplies) Act was passed under which every wholesaler dealing in controlled goods was restricted from supplying to unregistered persons in the home trade more than 75%, by quantity, of goods supplied in the standard pre-war period. Orders, under the Act, covered most consumers' goods and they were furnished to retailers according to a quota furnished during the standard period April 1-September 30, 1939.

Under the provisions of this Act the Board of Trade received certification of quantities supplied by firms in the standard and subsequent periods. Non-essential goods were divided into seventeen classes, and all individuals carrying on the business of suppliers of controlled goods, in the manufacture of which they carried out a process, and persons selling these goods to other traders who resold them, were required to register. The purposes of the Act to direct production to export channels and to release productive resources for war purposes.<sup>8</sup>

Various orders have been issued under the Limitation of Home Trade Act. Cotton, silk, linen, piece and made-up goods were

supplied, for example, to retailers in only 20% of their quantities in the standard period of 1939, and for rayon the percentage was set at forty. The Cloth and Apparel Order of September 1941 covered clothing but did not, for instance, specify that the clothing must be for utility wear. A series of Orders-in-Council, under the Act, however, restricted the sale of many goods to a fraction of quantity, or of value, sold before the war, with the restrictions varying from 25-50%.

Consumers' goods of a finished nature were supplied to retailers according to a quota of the goods finished during the standard period covering the months April 1 to September 30, 1939. Orders covered practically the entire field of consumers' articles, including clothing, footwear, hosiery, leather, paper, furnishings, pottery, lighting fixtures, photographic materials, toys, toilet goods and jewelry. Reduction has been secured on the average of fifty percent in the goods available for sale in these categories but the full effect of the reduction was not evident immediately after the Act entered the statute books because of the existence of large stocks of accumulated goods.

Household goods, including furniture, refrigerators, gramophones, have not been rationed on a per head but instead on a bulk basis. Most of these articles were covered by the Limitation of Supplies (Miscellaneous) Order which limited the total value of individual classes of goods that could be supplied to retailers to supplies furnished during the period June 1939 to May 1940. The supply of durable goods on the market has been reduced by 50% or more and in the case of metalware, cameras, musical instruments, goldsmiths' and silversmiths' ware, perfumery and toilet preparations the cut has totaled 75%.

A new system of coupon-banking went into operation the middle of June 1942. Under it no common transfers between traders were allowed after that date except by means of transfer-vouchers, traders opened coupon accounts at their banks, retailers banked their coupon receipts, and from that point on the transfer of coupons from retailer to wholesaler, and from wholesaler to manufacturer, occurred only by means of coupon transfer-vouchers. These vouchers were made out by traders and deducted from



their coupon balance at the bank, the bank sending the original loose coupons back to the Board of Trade, relieving wholesalers and other parties of the task of counting them. Coupons had to be taken to the transferor's bank for confirmation and left there until the following working day. The recipient of the vouchers had to deposit them in his own coupon account before he could regard the coupons as being received.<sup>9</sup> This procedure represents a marked departure from customary methods and it has been adopted by the United States for introduction on a national scale.

#### RATIONING OF CLOTHING

Before the plan to ration clothing was adopted in the Spring of 1941 quotas of clothing had been allotted to retailers on the basis of their past sales. This method had possessed the following disadvantages: pre-war sales were no longer an accurate gauge of requirements because of population shifts and other factors, and manufacturers were apt to concentrate on profit-making lines of goods rather than on work clothes and children's garments. Under the rationing plan every citizen received 56 coupons per year, acceptable by any store and usable in any quantity at any time except that a separate clothing card, issued in August 1941, contained 40 coupons with one-half of their number reserved for use after January 1, 1942.<sup>10</sup>

Coupons could be used in the following manner by men:

suits	26	coupons each
shirts	6	" "
socks	3	" "
collars	1	" "
ties	1	" "
gloves	2	" "
overcoats	16	" "
handkerchiefs	1½	" "

And women had to observe the following valuations for their purchases:

dresses (wool)	11	coupons	each
dresses (not wool)	7	"	"
coats	14	"	"
skirts	7	"	"
stockings	2	"	"
shoes	5	"	"

Certain general principles were observed relative to the clothes rationing plan. The value of the articles bore no relation to the number of coupons required for their purchase. Children's coupons, however, were issued at a lower rate than adult's. Boy's jackets required 8 coupons; trousers 6; shoes 3. A girl's dress needed 8 coupons if it were made of wool, only 5 if of other material; stockings 1; shoes 3. Expectant mothers received 50 extra coupons, and extra coupons were issued as the child's growth necessitated. Tailored-to-order clothes came within the restrictions but men's and women's hats, clothing of children under four, and secondhand articles of apparel could be purchased without coupons. Retailers received fresh supplies from wholesalers only in relation to the number of customers' coupons they delivered to the latter. Firms which were bombed out of business could obtain special goods from the Government for a new start, and persons who were granted funds from Assistance Boards, to replace clothing lost by enemy action, received additional compensating coupons.

Under the rationing scheme a family with a weekly income of £3 was permitted to buy more new clothing per year than before the measure was enacted but families with incomes of £4-£5 per week were forced to buy less. The sale of coupons to other purchasers was declared illegal. The rationing of clothing accomplished a number of purposes. It curtailed the amount of money spent by the public and prevented increased wages from exerting an inflationary influence, it released workers from the textile industries to war production, and it secured greater equality in the distribution of rationed clothing.

With his coupon allowance for a year a man could purchase the following articles:

1 woolen suit	26	coupons
2 woolen shirts	14	"
1 set woolen underclothes	8	"
3 prs woolen socks	9	"
1 pair shoes	7	"
4 handkerchiefs	2	"

Or he could purchase:

1 woolen overcoat	18	"
3 non-wool shirts	15	"
1 non-wool set of underwear	5	"
1 suit of pajamas	8	"
1 pair of woolen socks	3	"
4 non-wool pairs of socks	4	"
1 shelter suit	11	"
1 pair gloves	2	"

A woman's annual purchases could consist of:

1 woolen dress	11	"
1 non-wool dress	7	"
1 woolen skirt	6	"
1 sweater	8	"
1 pair of slacks	8	"
1 shelter suit	11	"
1 set of underwear	4	"
1 girdle	1	"
1 pair of stockings	3	"
1 pair of shoes	5	"
1 pair of gloves	2	"

Used clothing sent from the United States to Britain, for charitable purposes, was distributed coupon-free. Private parcels, not exceeding 5 pounds in weight, could be received from friends coupon-free, also, but if they weighed more than 5 pounds their recipients had to surrender the appropriate number of coupons or refuse to accept them. Charitable institutions collected coupons for

gifts and for new material sent directly to them, and they could obtain fresh supplies by these coupons or by special license obtained from the Board of Trade.

The clothing rationing plan permitted each consumer, within the limit of his total coupons, to purchase any clothing items he wished. Provision was made for the issue of additional coupons to satisfy the needs of certain occupations, such as coal mining, and arrangements were made for the manufacture of cheap, durable clothing for the poorest sections of the population.

To emphasize the use of non-luxury clothing the Utility Apparel Maximum Prices and Charges Order came into force on February 3, 1942.<sup>11</sup> The Order was administered by the Board of Trade and at the present time it applies to about two-thirds of the population. The features of the new Order included the following:

1. It did not limit the variety of clothes and individuals who had been worried about the adoption of uniform clothes were satisfied.
2. It provided that exclusive models and high quality clothes would still be available for those persons who could purchase them although the Order reduced the supplies and the price of these goods was expected to rise.
3. It promised a steady supply of utility clothes at reasonable prices for a large share of the public, and it limited the price and standardized the quality of more than 1,000 different garments.

The Board of Trade had been concerned, for some months previous to the enactment of this measure, with the steadily rising cost of clothing. Although there were a number of underlying reasons for this rise the main one was the loss of the chief sources of cheap clothing supplies in Poland and Japan, and the limitation placed upon buying clothing by the coupon system just described. Manufacturers who could sell only limited quantities of clothing had turned to the production of more expensive garments to secure a higher margin of profit. Because of this tendency the poorer sections of the population had had a difficult time buying clothes. Under the new Order the following provisions were made to alleviate these problems:

1. The cloth manufacturer had to devote at least two-thirds of his output to utility cloth. In the beginning of the operation of the Order, cloth which conformed to certain standards of weight, width and price was accepted but later highly technical specifications were imposed.
2. The clothing manufacturer could design any garment in his own style but he could use only one of the utility cloths specified for the type and range of garments he intended to make, and he might add a net profit of from 4-7½ percent.
3. The wholesaler, if selling direct through his own organization, could add a gross 20% to the price paid to the maker, or 5% if he is not selling direct.
4. The retailer could add one-third to the price paid for the garment (including purchase tax).
5. Ceiling price, the profit taken by both retailer and wholesaler, however, was subject to a maximum price fixed for every type of garment.

The following list indicates how a well-balanced yearly expenditure of the allotted sixty-six coupons could be spent by a woman on a utility wardrobe:

<i>Item</i>	<i>Coupon Value</i>	<i>Maximum Utility Price—£</i>	<i>Maximum Utility Price in \$s</i>
Coat	14	£5 7s 10d	\$21.55
Woolen dress	11	3 18s 7d	15.70
Sweater	5	13s 6d	2.70
Skirt	7	1 6s 11d	5.40
Crepe satin nightie	6	18s 10d	3.75
Crepe de chine vest	3	8s 9d	1.75
Panties	3	4s 10d	.95
Crepe de chine slip	4	12s 11d	2.60
Six pairs of stockings	12	19s	3.80
Two handkerchiefs	1	no price	no price
Total	66	£14 11s 2d	\$58.20

The Board of Trade issued a 74 page booklet covering the thousand garments which the Order controlled. It stated, for instance, that a grocer's short white jacket must have three buttons down the front, three patch pockets on the front, cuffs without buttons, be made of shrunken cloth, and be sold at a maximum selling

price of 13 shillings. For all the major items of clothing provision was made for two or more ranges of varying quality and price. The only articles not accounted for by the Order were hats, gloves and shoes.

If the cheapest utility range were bought in each case above, instead of the most expensive, the total budget would reach \$30.20.

When Hugh Dalton moved from the Ministry of Economic Warfare to the Board of Trade, in March 1942, he stated that the curbing of consumption of non-essential goods and the curtailment of the manufacture of these goods had been among the slowest processes in Britain's transition from a peacetime basis to a total war economy. He prophesied that the final stage would be reached in the Spring of 1943, and indicated that the utility clothing scheme would spread to additional areas in future months. For women this would mean shorter skirts, fewer styles and less choice of colors. For men there would be trousers without cuffs, sleeves without buttons, and only single-breasted coats.

Toward the end of March 1942, Mr. Dalton announced that the clothing rations would be reduced 25% below the limit stated in the table above, that is, from 66 coupons for 12 months to 60 coupons for 14 months. This move was made to free men from jobs in textile mills and tailoring establishments for work in war factories, and to save shipping space for the importation of vital war materials. It has been estimated that at least 50,000 workers, through this reduction, would be released to the war effort. The number of coupons submitted for purchases, as has already been stated, remains the same under the new plan. The Government's goal is 100% utility production with total production delegated to 1,200 firms throughout the nation, and two-thirds of the material produced for home consumption of utility specification. To advise on the best methods of carrying out the program panels have been set up with their membership nominated by the trade associations concerned. By curtailing all unnecessary aspects of clothing and by limiting the number of colors large economies have been realized and, in the long run, these changes will be reflected in lower commodity prices. The Chairman of the Board of Trade has hinted that "battle dress",

that is, uniform clothing, may appear in 1944 if present measures do not bring the desired results.

The clothing rationing plan has had the following direct results: sales have been restricted to 60 coupons for 14 months; customers have been found to concentrate on quality and durability of merchandise; men and women tended to use coupons for outer, rather than for under, wear; voluntary restrictions have proved successful; a general leveling up of quality has been secured; retailers have more clerical work to do than before the plan was introduced; prices and quality of manufactured goods have been placed under the supervision of the Board of Trade; and choice has been permitted consumers within the limits of coupon purchasing power as to where and when and what purchases should be made. By clothes rationing and other measures 200,000 tons of shipping and more than 400,000 workers have been released from the textile industry for other purposes. The Chancellor of the Exchequer has stated, in discussing the advantages of the plan: "At one stroke a substantial item of personal expenditure, representing nearly 20% of the total personal expenditure apart from food and drink, was brought under control, and the growth of a dangerous excess demand over supply was checked."

#### PRICES OF GOODS ACT

The Prices of Goods Act appeared on the statute books in 1939. It covered a large number of commonly used articles and endeavored to permit prices to rise above their pre-war levels only as the result of approved increases in costs. It estimated a maximum price and a margin of reasonable profit for a list of specified goods.<sup>12</sup>

It became unlawful, under the provisions of the Act, for any person to sell or to agree to sell any price regulated goods in excess of their permitted price. In calculation of this figure the basic price for each commodity was used, plus increases in its direct costs, plus overhead expenses allocated to it, considered in relation to the volume of business over which the overhead was to be spread. Any person carrying on a business which included the sale of a price regulated commodity could be required to produce, for inspection by a person appointed by the Government,

all of his accounts, books and other documents relating to his business, and to permit an examination of his calculations.

The Government, however, had experienced difficulty in placing all commodity prices under control as the country depended heavily on imports from abroad. The Prices of Goods Act controlled all prices above their April 1939 level but it proved, with elapsing months, to be difficult to apply. It did not forbid price increases caused by actual rises in production and in selling costs. It was soon discovered that price control without rationing was a deterrent to the sale of all controlled goods in the open market.

Government price control, to prevent the prices of many articles from rising out of proportion to increases in costs, was introduced as a progressive economic policy. The Trade Unions presented a united front in favor of this policy which was one indication of the opinion, stated by the Crown, Government leaders, the press and the public, that equality of sacrifice must be insisted upon for the duration. The Ministries of Food and Agriculture, in this process, assumed the responsibility for fixing certain wholesale and retail prices, and the Ministry of Supply for establishing prices for essential materials, such as steel. The wording of the Prices of Goods Act, however, was so vague that its provisions did not achieve successful enforcement. For example, the Act's reference to a "permitted increase reasonably justified in view of changes in the business" remained obscure and open to many interpretations, encountering the same difficulty as that of all legislative measures which relate prices to costs.

#### GOODS AND SERVICES (PRICE CONTROL) BILL

In the Spring of 1941 a Bill was introduced which afforded the Board of Trade greater control over all prices, except those of food, than that which had been provided by the Prices of Goods Act.<sup>13</sup> Under its provisions the Board was empowered to fix maximum prices for specified goods, and to establish maximum wholesale prices and retail percentage margins. The scarcity of supplies and dealings in quotas had made it difficult for the Board to determine what increases above the pre-war basic prices should be permitted under the procedures followed by the Prices of



Goods Act. Different methods of control had to be introduced and the theory adopted that maximum prices should be fixed for specific goods and for certain services.

Under the new Act maximum prices were fixed for certain specified goods which were increasingly standardized in manufacture. The price regulation scheme adopted covered 41 classes of goods. Maximum prices, first, were fixed for the more important of these classifications, later for less important items. The Bill represented the first major change in the British general price policy since the inception of war but it did not cover charges for electricity, gas or rent.

The advantages of this Act over the Prices of Goods measure, which preceded it, included the facts that it provided the Board of Trade with power to fix maximum prices which, previously, it did not possess; it included most services; it did not make investigations and prosecutions dependent upon complaints of buyer but instead placed the responsibility for these measures upon the Board. Its main object was to restrict profits. By establishing a tight control over prices and by preventing profiteering it became a complementary measure to the Prices of Goods Act for stabilizing prices and, in addition, it ensured a fair distribution of goods.

The Goods and Services Bill was directed toward assuring that all available goods on the market would be spread over the entire population and that the cost of living of wage-earners would be kept down so that a large share of their rising incomes would be made available for the war effort. It allowed the Board to fix maximum instead of permitted prices, and afforded it complete responsibility for carrying out its provisions. The Board could use its own methods in computing the cost of production on which its opinion of the fairness of the price was based, and it could demand books, accounts and other records "in relation to the business, and in such form and containing such particulars with respect to such matters, as may be specified."<sup>14</sup>

From July 22, 1941 the Board of Trade's power to fix maximum prices was in operation, but in the beginning it dealt only with a comparatively restricted range of the more essential goods, such as clothing, boots and shoes. To other goods the 1939 Act con-

tinued to apply, subject to certain minor amendments. The earlier Act proved ineffectual as in specific situations it depended largely upon the complaint of retailers against wholesalers or manufacturers, a comment which they did not wish to make because their supplies came from the individuals against whom they were registering the complaints. With the filing of a complaint their source of supply was cut off by irate wholesalers and manufacturers who naturally resented their retailers' criticism.

The 1939 Act, therefore, was much more effective in dealing with wholesalers and manufacturers than with retailers but it did not prevent the withholding of stocks from sale, or check conditional sales, or cover services. The Goods and Services Act, on the other hand, was superior to it in that it contained provisions affording the Board of Trade authority to fix maximum prices and charges of specific goods and services, to control prices of second-hand goods, and to check speculative activities of middlemen and brokers. The Board, under it, could specify maximum prices to be charged for a specified article at various processing stages between the manufacturer and the public, could limit the percentage margin of gross profit which a trader could add to the cost price of his goods, and could compel retailers to exhibit notices showing the maximum prices of their merchandise.

Orders prepared by the Board provided that no manufacturer could sell at a price which would yield him more than a 4% net profit on his cost of production and sale provided that in no case the price fixed should exceed the figure shown in an established schedule prepared by the Board. Maximum wholesale and retail prices of goods, generally speaking, were based on the application of percentages to the maximum price fixed for the manufacturer. These percentages covered 20% on cost price for wholesalers, and 33⅓% on cost including the purchase tax where it was payable. However, under the Act wages and food prices remained free to change. It was successful, though, in preventing profiteering and price rises resulting from competition between war and civilian production. It secured the establishment of maximum prices over a wide field of commodities and it held the cost of necessities to a reasonable level.

## PRICE CONTROL

During the progress of the war an artificial increase in purchasing power and in profits occurred which if it had remained uncontrolled would have produced inflation. British price control in the last war ended in a futile effort to avoid rising trends in prices brought about by profit and income inflation. The Government, at that time, failed to reduce the forces which were operating against the control of prices. Even if there had been no inflationary expansion of purchasing power there would have been a tendency for prices to rise above the official level because of the scarcity of supplies and the public fear of further curtailment of goods available on the market. Although experts noted the rise in commodity prices they believed it to be due to the shortage of supplies resulting from the war. When they attempted to establish control it was secured only gradually, first over rents, later over a small number of commodities, finally over a larger number of essential goods. In spite of these measures by the end of hostilities the prices of many commodities and services remained completely uncontrolled, although vague Governmental pronouncements had been made against profiteering in general.

This unfortunate experience has led to a more determined and organized effort to control price rises in this war. In his Budget speech of March 1941 the Chancellor of the Exchequer stated the Government's intention to endeavor "to secure the greatest possible stability in the cost of living." Some weeks later, however, questions arose as to what specific action should be taken in relation to price rises. Generally speaking it was believed that the Government should prevent price advances at key points in the economic structure, such as for essential foods, rents, essential clothing, coal, transportation, gas and electricity. If prices of these items remained stable, changes in the price level would not have dangerous consequences as variations in the price of luxuries and near-luxuries were of slight importance. If basic prices were maintained, wages would not need to increase except to compensate underpaid workers or to offer an inducement to workers to shift occupations in answer to national need. Trade unions stated their belief that if prices were firm wages would

tend to remain unchanged, but if they rose wages would have to increase to compensate workers for the advancing cost of living.

If prices had been allowed to rise without control, war and civilian requirements would have competed with each other in the open market to the detriment of both as price rises would have been inevitable. Wages would have risen correspondingly to prices, and prices to costs, with complications appearing on every hand. It was seen, therefore, that rises in prices would have to be kept at a minimum to permit civilian requirements to receive satisfaction and to guarantee that Government purchases would be made at legitimate prices. Events proved that the Government had to keep the cost of foodstuffs down by a subsidy and that this control had to be extended to shipping and transport charges to prevent or reduce in intensity the impact of increased costs on the consuming public. It stated its intention of spending £100,000,000 per year to stabilize essential foodstuffs but for the twelve months ending April 1942 its actual outlay to accomplish this purpose totaled £125,000,000. This expenditure has been estimated at £150,000,000 for the year 1942-3. The Board of Trade has stated its intention of extending price control and of securing a stricter regulation of prices of goods. By the middle of June 1941 nearly seventy main food commodities were controlled as to price and regulations of this nature covered a wide field of consumers' goods. This control, however, has aggravated the shortages already in operation in the market and, despite regulation, excessive purchasing power continues to flow into black markets.

One of the factors that has not been controlled has been wage rates. Numerous increases in these rates had occurred, to June 1941 alone rising 15%, while earnings, because of increased time and overtime paid to workers, had climbed nearly twice as much. By February 1942 wage rates, according to official Ministry of Labor figures, had risen 26-27%. Wage increases have continued to be granted in the face of widespread criticism. The Government, in June 1941, stated its policy of avoiding modification of the existing machinery for wage negotiations in effect, and its desire to continue to permit various voluntary organizations and wage tribunals to arrive at decisions in accordance with

their estimate of relevant facts concerning future increases.<sup>15</sup> But it stated that when these groups dealt with general wage applications it should be borne in mind "that the policy of price stabilization will be made impossible and increases of wage rates will defeat their own object unless such increases are regulated in a manner that makes it possible to keep prices and inflationary tendencies under control."

The object of Government policy was to prevent the cost of living index rising to more than 125-130% of the pre-war level. This has been achieved by subsidizing food production, and controlling food prices, the cost of transportation, utilities, and articles in common use. Government control of all essential commodities was evident in the slowing down of advances in prices from 42.8% during the first year of war, to 9.4% in the second, and to only 3.5% in the third. Although the danger of inflation because of price rises was not present at the end of the third year of war, the Government had failed to fortify its price control policy by the control of all wages which rose disproportionately to the increase in the cost of living. The Government has stated again and again that the official wage policy will remain unchanged, that no attempt will be made to fix a ceiling for wages, and that the control of wages will be left under the supervision of workers' representatives and employers with the Government expressing the hope that both groups will continue to hold inflation in check. This stand may be taken to mean one of two things, either the Government is satisfied that the present wage situation is satisfactory as it encourages workers to high output through the stimulus of increased wages, or it does not wish to oppose organized labor. If the danger that continued wage rises may become a general trend for additional and unreasonable increments is held within bounds it is possible that rising outputs may compensate for rising wage costs, especially in those areas where workers must be induced to enter employment through the offer of a monetary benefit.

Wage increases, after they have been granted, have been used by their recipients to meet the rising cost of living, to purchase unrationed goods, to spend in black markets, and to save. Increases in wage receipts, compared with the rise in the cost of

living index, would have resulted in inflation if they had not been controlled by rationing of goods, increases in income and indirect taxes, and the encouragement of savings. A large proportion of these increases has been returned to the Government in the form of taxes and savings. Other curtailments to civilian spending have occurred with the reduction of coal, gas and electricity consumption and the curb of sports and private motor-ing, already described, and the enactment of the Utility Apparel Maximum Prices and Charges Order which limited the type of goods which could be manufactured and placed a ceiling price on every garment.

Because of the Government's absence of a definite price policy during the early part of the war it has depended, in recent months, upon its program of price stabilization hoping that by following this course it can stabilize wages by stabilizing prices. That this procedure was not wholly successful is indicated by the fact that the campaign for higher wages has continued unabated. Rapidly increasing purchasing power, in the ranks of lower income bracket families, continues to be met by strictly limited supplies of consumers' goods on the market, and by increased indirect taxes on many commodities in common use.

With the development of the war it was apparent that price control, such as the fixing of maximum prices or the establishment of profit margins, could only be really effective if it became part of a more comprehensive policy. Such a policy would include rationing, subsidization and standardization of commodities which would be developed gradually as the war effort demanded more stringent control of civilian consumption. This has been the course of events in Britain and the price increases that have appeared have been caused by increases in freight rates, insurance premiums, raw materials and labor, and by the fact that the volume of demand was much higher than the effective supply of goods at existing prices. If strong measures of price control had not been initiated in view of these facts marked price increases would have been unavoidable and decreases in stocks of consumers' goods would have been evidenced by queues and shortages. Investigations by the Oxford Institute of Statistics have revealed that the first group of causes of price increases occurred

from the inception of war until the middle of 1940, while the second group brought about price rises from 1940 onward in combination with the first group, which continued to operate.

To offset price increases in goods consumed by most people subsidization by the Government has occurred but in the case of raw materials, which have been affected by price increases as most of them had to be imported from abroad, no stabilization of prices has been attempted. The raw material controls operated by the Ministry of Supply, described in another chapter, have established prices for major raw materials in most instances with the pre-war levels of these materials taken as their basic price.

Certain allowances have been made for increases in costs, incurred during the war, in the establishment of raw material prices. But irrespective of whether the raw materials have been controlled or not their prices rose steadily from 1939 to 1942.

A summary of the British wartime price policy follows:

1. Direct price control

- a. Statutory measures taken to control prices at the inception of war have been extended to the point where control is exercised over the price of food and feeding stuffs by the Ministry of Food, industrial raw materials by the Ministry of Supply, and non-food consumers' goods by the Board of Trade.
- b. The Ministry of Food, created by Order in Council, under the Emergency (Defense) Act, in August 1939, controls, by means of the issue of Statutory Rules and Orders, the prices, whether at the farm or at the import, wholesale or retail level, of almost all foodstuffs consumed. The Ministry has control over supply as, pursuant to Regulation 55 of the Defense Regulation, it is authorized to regulate or prohibit "the production, treatment, keeping, storage, movement, transport, distribution, disposal, acquisition, use or consumption" of these articles, and rations foodstuffs at the consumers' level.
- c. At the inception of war standstill orders and provisional price orders were issued to fix the prices of important foods at or near their pre-war wholesale and retail level. These orders were carried out by maximum price orders and they, also, were issued for those commodities which, relative to allocation, remained largely uncontrolled. The Ministry of Food, however, discov-

ered that two tendencies from September 1939-January 1941 were prominent:

- (1) For supplies of commodities not price-controlled to move away from legitimate distributive channels and to be sold in black markets.
  - (2) For prices of uncontrolled commodities to rise as a result of partial control because of the wide opportunity for one type of foodstuffs to be substituted for by another.
- d. Because of these experiences the Ministry of Food, during 1941-42, extended rationing and price control until they cover the entire market for food.
- e. The Ministry of Supply, established by Act of Parliament in July 1939, controlled all industrial raw materials of importance with relation to price and allocation. Its statutory powers included:
- (1) The power to set maximum or specific prices
  - (2) The power to buy and sell
  - (3) The power to prohibit or limit the acquisition, disposition, production, use or delivery of materials by general or special direction or by licensing. The Ministry operated by the issuance of Statutory Rules and Orders.

The policy of the Raw Materials Controls within the Ministry has been to institute price control at the same time with more or less complete control over the supply and distribution of controlled commodities. In instances in which maximum prices were established without the adoption of supply controls they have been supplemented by that method.

- f. The Board of Trade is in charge of the remainder of the price control functions. For example, goods which are not specifically controlled by some other Government Department, as for instance foodstuffs and industrial raw materials but also freight rates on sea and land and the price of electricity controlled by the Ministry of War Transport, the price of coal by the Ministry of Mines, rents by the Ministry of Health, and gasoline by the Petroleum Department of the Board of Trade, come under the provisions of the Prices of Goods Act.
- g. The Prices of Goods Act, passed by the Government in November 1939 at the request of the Board of Trade, to prevent profiteering, froze the prices of almost all non-food consumers' goods at the level at which they were sold on August 21, 1939. It provided for the following:



- (1) A price-regulated commodity was not to be sold at a price above the basic price, that is, the August 21, 1939 level, plus a permitted increase.
  - (2) Administrative determination of a specific permitted price was allowed in certain cases.
- h. In spite of the Prices of Goods Act the prices of goods controlled by this method suffered a decided increase during the war. The operation of the Act was hindered by the facts that it relied for its enforcement on the appeal of individual purchasers against profiteering, there being no inspectorate appointed under it, and permitted increases were justified, by the Act, by increases in cost, including increases in overheads. It was affirmed, therefore, that price control without simultaneous control over supply was unsuccessful.
- i. The Board of Trade, therefore, supplemented the Prices of Goods Act by the Goods and Services (Price Control) Act of July 1941 under which particular price ceilings were imposed on non-food consumers' goods and these goods were standardized to a marked degree. Control was strengthened in the case of clothing by consumer rationing of clothing started in May 1941.
2. Indirect price control
- a. The conversion of the country to a wartime basis caused inflationary forces to appear which could not be controlled solely by direct measures of price control. These measures had to be accompanied by some method of controlling the forces in operation, by diminishing the amount of purchasing power reaching the market through reducing wages or reducing the proportion of wages spent by taxation or by savings.
- (1) The Government relied on the voluntary machinery of collective negotiation between trade unions and organized employers as a method of determining wages. In a large number of these agreements was a sliding-scale clause relating increases in wages to increases in the cost of living index. Average wages had risen on the average of 20% from the outbreak of war to April 1941 when the Government endeavored to stabilize the official cost of living index by means of Treasury subsidies. After this statement, contained in the Budget of April 1941, average wages rose only 2% from April-October 1941. However, it was recognized that stabilization of wages,

in the face of increased employment and decreased supplies of consumers' goods, would not prevent rising prices, and that purchasing power would have to be drawn off either by taxation or savings.

- b. Heavy increases in the tax on profits and incomes were made, and the excess profits tax was raised to 100% in July 1940. These have been discussed.
- c. The Government initiated a War Savings Campaign in November 1939 and has intensified it. In spite of its success, however, the Government finally introduced forced savings, a reversal of its policy stated in the 1940 Budget speech and not to be considered as a reflection on the inability of citizens to realize Government savings quotas. However, the upward trend of retail prices indicated that the increase in savings under the voluntary system was not reducing money expenditures proportionately to the reduction in available commodities. The rate at which wage-rates were increasing indicated that some method had to be found to reduce the expenditure of the lower income groups which composed the majority of wage-earners. Through the forced savings plan, already discussed in another chapter, reductions were made in the personal and earned income allowances to increase the tax paid by individuals in the lower income groups, with amounts to be credited in post office savings bank accounts of taxpayers.
- d. A consideration of the cost of living index indicates how great, during the first four months of war, during which period rationing was not imposed, while the region of direct price control was small and while the indirect methods of controlling prices were still untried, the immediate danger of inflation was most apparent. During 1940, in spite of the continual and progressive subtraction of resources from the sphere of civilian to the sphere of war production the development of anti-inflationary measures, summarized above, held them in check and has continued to modify the increase.

As the Prices of Goods Act is viewed objectively it can be seen that its control was largely ineffective and conditions remained on an unsatisfactory basis until the enactment of the Goods and Services Act which empowered the Board to take really effective steps to secure price control in all areas it con-

sidered essential. The responsibility for prosecuting offenders was accorded the Board and it established District Price Regulation Committees for this purpose. It established maximum prices, not profit margins, a practice which led to the rapid trial of offenders. The Board rendered various methods of evading price control unlawful, such as sales through unnecessary middlemen with the object of charging the permitted profit margin several times, joint sales of price-controlled and non-controlled goods, and selling of an article on condition that another article be purchased. Many of the Regional Committees, composed of independent, public-spirited individuals, have waged successful war against evasions of price control in various sections of the country. Although the final aspects of the Government's price control policy have not yet been evolved a firm front has been erected against needless price rises, the accompanying decline in the standard of living, and the haphazard distribution of available supplies. Government officials have maintained a stern eye toward unjustified price rises and they have encouraged the public to report any important local price changes. They have secured prosecutions against individuals who infringed upon price regulations, and have done everything possible to curtail the sales of goods above established prices both in legitimate and in black markets.

#### PRICE RISES

Many increases in prices occurred in the early months of the war before price control and rationing had become effective.

Between August 1939 and September 1940 the index of wholesale prices compiled by the Board of Trade rose by 44% and the Ministry of Labor's index of the cost of living increased by 22%.<sup>16</sup> Movements toward higher prices were provided with impetus by advances in rail and freight charges and by rises in the cost of iron and steel.<sup>17</sup> The aggregate increase in the index from September 1939-1942 totaled 62%, food prices being up 70% and industrial materials 57%. The Board of Trade's index of wholesale prices reached 158.6 at August 1942 compared with 153.2 at August 1941 and 98.1 at August 1939. This was a contrast to that

of the last war when during 1917, wholesale prices rose 70% and 280% three years later. The marked rise for 1941 indicates that the forces at work to increase prices had been exhausted by the end of 1940, and that the extension of Government price control and subsidization had exercised a stabilizing effect upon the price level. The Government policy arrested the upward trend in prices of foodstuffs which for the first four months of the war totaled 24½%, for 1940 21½%, and for 1941 5%.<sup>18</sup> The cost of living rose 28%, compared to an 18% rise in the wage-rate index, during the period August 1939 to March 1941. On February 1, 1942 the former was 29% higher than at the beginning of the war.

The following table indicates the rises in essential commodities and services to January 1942, compared with a base figure of 100 for July 1914:

<i>Date</i>	<i>Food</i>	<i>Rent</i>	<i>Clothing</i>	<i>Fuel and Light</i>	<i>Miscel- laneous</i>	<i>All Items</i>
Sept. 1939	138	162	208	182	179	155
Jan. 1940	157	162	250	201	190	179
July 1940	168	164	290	212	210	187
Jan. 1941	172	164	330	223	222	196
July 1941	167	164	375	228	227	199
Jan. 1942	163	164	400	230	233	200

Maximum prices for food, from the inception of war, have been fixed for an ever widening field until at the present time they apply to most foodstuffs. Prices of food, consequently, have risen less than those of other goods.

Some of the increase in the cost of living has been caused by the imposition of purchase taxes upon commodities, such as tobacco, in common use. If these taxes were omitted in the calculation above the actual rise in the cost of living index would have been only about 23%, indicating that the cost of living index is higher than the rise in the food group. The lower rise in foods is due, in the main, to Government subsidies, to effective price control and to rationing. For the first three years of war the Government's policy of pegging the cost of living at its April 1941 basis was substantially successful.

The percentage increase of retail prices for food and all items, as a percentage of September 1, 1939, follows:

<i>Date</i>	<i>Food</i>	<i>All Items</i>
Dec. 1, 1939	114	112
Mar. 1, 1940	117	115
Dec. 1, 1940	125	126
Mar. 1, 1941	122	127
Dec. 1, 1941	120	129
Mar. 1, 1942	117	129

According to Board of Trade data there was a slow rise of  $\frac{1}{2}\%$  a month in wholesale prices between December 1941 and May 1942. The changes during the war to June, 1942 may be stated as follows (based on the Board of Trade index):

August 1939	100
December 1939	125
December 1940	151
September 1941	157
December 1941	159
March 1942	162
June 1942	163

The changes in principal groups were as follows:

	<i>Aug.</i> <i>1941</i>	<i>Aug.</i> <i>1941</i>	<i>Aug.</i> <i>1941</i>	<i>Dec.</i> <i>1941</i>	<i>Mar.</i> <i>1942</i>	<i>June</i> <i>1942</i>
Cereals	100	170	180	200	240	232
Meat, fish, eggs	100	138	138	138	138	138
Other food and tobacco	100	146	167	167	165	176
Total, food, etc.	100	150	161	166	175	178
Coal	100	120	138	139	139	139
Iron and steel	100	127	141	141	142	142
Non-ferrous metals	100	123	123	123	125	125
Cotton	100	156	172	175	177	176
Wool	100	153	166	168	168	168
Other textiles	100	142	167	171	171	172
Chemicals and oils	100	128	138	139	144	145
Miscellaneous	100	161	177	180	177	178
Total, materials, etc.	100	139	153	155	155	156
Grand Total	100	143	156	159	162	163

By September 1942 the *Economist's* index of commodity prices, based on 1927 as 100, was 110.8, compared with 106.7 of the year before and 70.3 at the end of August 1939. Index numbers by groups of commodities were as follows:

<i>Item</i>	<i>September 1, 1942</i>	<i>September 2, 1941</i>
Cereals and meats	108.2	99.4
Other foods	102.6	99.7
Textiles	92.3	94.3
Minerals	131.8	129.2
Miscellaneous	119.8	113.0
	<hr/>	<hr/>
General Average	110.8	106.7

The Board of Trade's index of commodity prices for August 1942, based on 1930 as 100, was 158.6, compared with 153.2 for August 1941 and 98.1 for August 1939. The individual index numbers were as follows:

<i>Item</i>	<i>August 1942</i>	<i>August 1941</i>
Food and tobacco	153.7	145.8
Coal	179.9	162.1
Iron and steel	182.7	181.2
Non-ferrous metals	126.0	123.7
Cotton	143.6	140.3
Wool	173.6	170.7
Other Textiles	128.5	124.0
Chemicals and oils	134.4	127.9
Miscellaneous	172.2	169.8

The movement of retail sales has been affected by the purchase tax and by rationing of clothing. Summary figures of sales value, based on average daily sales in 1937 as 100, have been affected by normal seasonal reductions from month to month, by the holiday trade, and by disturbances due to enemy action.

Retail prices for food were nearly stationary from June 1941 to December 1941, and the index for March 1942 was lower than the year before by 5%. This decline was brought about by the Government's deliberate policy of subsidization, with the rise of flour prices in October 1941 balanced by a fall in the price of bread as part of the general plan. From September 1941-December 1941 there were increases in the value of sales for each category contained in the Bank of England's account. Although the figure for apparel was lower than in December 1940 the rise from September-December 1941 was greater than for the same period in 1941. The index for household goods showed an increase compared with September and with December 1940.

The table given below shows the index number of sales, in value, based upon the average daily sales in 1937 as 100:

	<i>December</i> 1940	<i>September</i> 1941	<i>December</i> 1941	<i>February</i> 1942	<i>May</i> 1942
Total	132	99	126	103	109
Food and perishables	126	99	123	113	119
Apparel	139	105	120	93	98
Household goods	186	88	99	77	101
Other merchandise	137	101	126	94	79

Unrationed goods were unrepresented in the index and if they were included it would be increased although this change has not altered in recent months. In spite of growing restrictions on public spending the average value of daily retail trade sales in February 1942 was 5.4% higher than in February of the previous year. This figure followed re-expansion in the two preceding months. The increase has been attributed to the absence of the heavy air raids which, during 1941, reduced retail trade to its lowest level. The revival is taken as an unwelcome sign of the fact that too much money is being spent on consumers' goods instead of aiding the war effort, an indication that additional measures will have to be imposed to control inflationary tendencies. One method under consideration is the concentration of retail shops, with the release of personnel to factories and the reduction of avenues of public spending.

The Board of Trade has appealed to all shopkeepers and customers to cooperate in making its orders more effective in checking unjustifiable increases in prices. Since the Ministry of Food has licensed all dealers in foodstuffs it has declared illegal all resales, except those which are legitimate steps in the distribution of goods. In some cases the retailer has not made an excessive profit but the goods have passed through too many hands, leaving a profit to the person carrying out each transaction before the goods reached the ultimate consumer. There remain far too many middlemen in business and the Board intends to reduce them drastically if voluntary reduction in their numbers does not occur.

Although the stabilization of the cost of living index has been secured by price control and subsidization, these methods have not prevented an excessive demand at current prices to be evi-

denced in the market. The urgent need for further curtailment of consumer spending was evident during 1942. One of the areas in which drastic control had to be initiated, to cut down funds flowing into it, was that of the black markets and other illegitimate trading centers which had sprung up in large numbers throughout the country.

#### BLACK MARKETS

By the beginning of 1942 public demand had been made that the Government control black market profiteering in food, clothing and other articles. This illegitimate trade had increased prices to astronomical heights even though the Ministry of Food had increased penalties to fines of three times the selling price of the article involved in the offense. Some people even demanded that the offenders be executed as mere court fines had failed to control their activities. By March 1942 the black markets were estimated to have an annual cash turnover of £156,000,000. It was recognized that their continuance undermined national morale through the creation of bitter class feeling.

Articles sold in black markets included, in addition to food and clothing, all rationed textiles, gasoline, whisky, cigarette lighters and gold. As all transactions were for cash they were difficult to trace. Many devious methods have been discovered of evading the law and of obtaining rationed goods, even at enormous cost. As an example of food traffic in black markets the Ministry of Food since the beginning of the war has undertaken 39,927 prosecutions of which 37,518 were successful; of these 29,329 occurred during the year 1941 and 10,598 in 1940.

Yet black market operations in Britain have not attained such serious proportions as on the Continent of Europe. Reasons for this contention lie in the facts that, as a whole, the British are law-abiding people, that they have not been subjected to defeat, and that shortages of commodities have been less severe than abroad. At the same time it is apparent that the enforcement of the various measures of price control continues to be a very difficult problem. Scarcity of articles tempts consumers to pay high prices, especially when buyers are earning high wages, and



shortages of food have tended to increase thefts, pilferings, bribes and frauds.

The black market in stolen food and other goods was stimulated during 1942 by the existence of a demand for bootleg supplies, and by the large opportunities for theft during black-outs and from unguarded railway cars. One difficult problem that has arisen has applied to the sale of poultry and eggs, sold direct by producers to restaurants and other buyers outside the regular channels of retail trade. In cases in which legal maximum prices are fixed for an article which the Government does not control completely collusion between buyers and sellers is difficult to prevent. The Ministry of Food's egg control plan requires all commercial producers of eggs, that is, individuals having 50 or more hens, to market their eggs through licensed packing stations. From the packing stations the eggs are allocated to the retail trade according to the rationing requirements of customers. But eggs produced by small flocks of hens are not subject to control and the evasion of the maximum prices by buyers and sellers may occur.

Evasion of price control, however, by collusion between food traders has been rare. It has taken place chiefly in regard to fruits and vegetables in short supply which were subject to maximum price orders. Wholesalers, for instance, would only supply retailers on condition that some other uncontrolled produce was bought at the same time and at a high price. Conditional sales of this kind now are illegal but it has been difficult to stamp out the practice because retailers who are imposed upon in this way are reluctant to give evidence of the transaction. One remedy has been to extend control over distribution of certain foods, such as oranges and onions.

Although in recent months wines and spirits have been bought and resold at extremely high prices this has not been a true black market activity as these articles were not controlled by the Government either as to supply, distribution, or maximum prices. It has aimed, instead, at curtailing such purchases by high taxation and by high prices.

The chief legal measures which have been used to control black markets include the following:

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1. Licensing of manufacturers, wholesalers and retailers, and in the case of food, also, restaurants and canteens. It has become a criminal offense for an unlicensed trader to deal in food at all and regular food traders, if they break the law, risk heavy fine or imprisonment and also temporary or permanent withdrawal of their license to trade.
2. Extension of rationing to more commodities than originally contemplated. With this has been the control of distribution and price from the source of supply to the consumer.
3. Strict enforcement of regulations. The Ministry of Food now employs 800 Enforcement Officers, including many former Scotland Yard detectives. In addition there are 1,500 local Food Controller Committees who employ their own Inspectors.
4. Drastic increases of penalties for serious offenses.

At the beginning of the war local magistrates tended to impose inadequate penalties upon black market operators. Under pressure of public opinion these penalties have become heavier. For serious offenses the maximum term of imprisonment has been raised to 14 years' penal servitude on indictment, and to 12 months' imprisonment on summary conviction. Recent regulations, also, provide that in the absence of special circumstances the offender must surrender the whole of his illicit gains. The man behind the scenes who organizes and profits from illegal transactions now is deemed guilty of an offense unless he can prove that he did not know and had no reason to believe that the transaction was illegal. The decided increase in prosecutions during 1941 and 1942 probably indicates that stricter measures of enforcement were observed rather than that there was an increase in the number of offenses. Most of the prosecutions have proved to be minor infringements of the law, and few have borne any relation to the black market. In spite of the rigorous sentences of the courts a recent survey shows that sentence of imprisonment was imposed in less than 1% of the cases and in less than 3% of them the fine exceeded £20. In 82½% of the instances the fines amounted to £5 or less.

New regulations came into effect for black market offenses in March, 1942 when, in a circular letter to all Justices, the Home Secretary drew attention to the responsibility resting on the

Courts to eradicate the evil by imposing on offenders penalties of a deterrent character. The main effect of the amendments was as follows:

Any person who contravenes an order for the control of goods, who steals a controlled article, receives one knowing it to be stolen or receives a commission in respect of a transaction constituting a breach of the control (unless he proves that he had no reason to believe that it did constitute such a breach) is liable to the following penalties: on summary conviction, a fine not exceeding the maximum amount shown below, or imprisonment for a term not exceeding a year, or both; or on conviction on indictment, a fine not exceeding the maximum shown below, or a penal servitude for a term not exceeding fourteen years or both. The minimum amount on either summary conviction or indictment is such amount as will secure that the offender derives no benefit from the offense. The maximum amount is on summary conviction an amount which exceeds the minimum amount by five hundred pounds or by the treble penalty, whichever is the greater; and on conviction on indictment an amount which exceeds the minimum by five thousand pounds or by the treble penalty, whichever is the greater.

The expression "treble penalty" means in a case where the offense was a sale or purchase of or offer to sell, or to buy, a controlled article at too high a price, an amount equal to three times that price; and in any other case, an amount equal to three times the price which the article might be expected to bring if lawfully sold. In special circumstances a competent authority or the Director of Public Prosecutions may require that cases shall not be dealt with summarily and the Director of Public Prosecutions may require unusually grave cases to be committed to Assizes.

#### FURTHER CONTROL OF CONSUMPTION

The question of the control of black market operators has focused public attention upon the necessity of further control of consumption in an endeavor to concentrate increased wages and earnings on the prosecution of the war and not upon the satisfaction of personal wishes and fancies. Because the amount of money spent in black and legal markets can be estimated accurately, and the difference between the total amount received as income and devoted to the purchase of Government war issues

is known to the Treasury, it is apparent that the discrepancy between what is saved and what is spent expands in favor of the latter category. If this movement continues unabated some form of compulsory saving may have to be adopted, and the amount of goods purchased by each citizen may have to be set. Under a plan of this nature the minimum essentials of life, including basic foodstuffs, would be guaranteed to all citizens and the remainder of their earnings, after payment of taxes and a minimum number of fixed charges, would flow into the Treasury.

While the Government has avoided the further development of compulsory saving, because it has been able to control consumption through rationing and other means already described and because individuals throughout the country have strengthened their will to save, there has been definite indication recently of a sterner new policy about to be adopted toward unnecessary modes of consumption. This trend has been evident, especially, in relation to money spent on black markets and on luxury articles but it may manifest new forms and additional restrictions if the war effort is found to be impeded in the future by the desire of citizens to spend, rather than to save, their increased incomes. The control of consumption has proved to be one of the most complicated, and at the same time the most important, aspects of the war, and the relation of its various ramifications to the total war economy has received emphasis again and again. It is apparent, therefore, that a coordinated policy of rationing and price control must continue to hold a position of eminence for the remaining years of the war.

## CHAPTER VIII

### PROVISION OF FOOD

England and Wales together possess only about 30,000,000 acres of grass and arable land. Before the war only about 30% of this acreage was under cultivation for crop and vegetable produce. By the summer of 1942 more than 6,000,000 additional acres had been placed under intensive cultivation, and another 1,000,000 acres must be plowed up during 1942-43.

During the early months following the declaration of hostilities the control of agricultural output was one of the weakest points in the economic structure. Voluntary efforts to produce more grain and other foodstuffs were uncoordinated and ineffectual. Less than a year after war started the Government provided impetus by placing 2,000,000 acres of grassland in cultivation in the United Kingdom, and by providing a subsidy of £2 for each acre plowed. But it failed to realize that agriculture constituted a vital part of the nation's defensive and offensive battle. Even on newly broken land, for instance, owners were permitted to plant whatever they wished rather than what was required by the Government. As farm labor diminished in volume, because of the movement of workers into more highly paid war industries, insufficient help was available on the farms and work fell behind at the very moment when increased output was most needed.<sup>1</sup>

One of the problems to be faced was that, for the last twenty years or more, a large portion of British farm land had suffered serious deterioration because of movements of citizens from the land to the cities. An average 100 acre farm could not be made to yield a net return of more than £2 per week. Vast fields were used for exercising grounds and cattle, in large numbers, were supported on imported, not home-grown, fodder. Whole districts,

once fertile and using forty men per thousand acres, were without a single plowman when war came. Drainage had not been maintained and building repairs had been neglected during years of peace. The playing fields, so much admired by visitors from abroad, could not be turned immediately to agricultural purposes. The desperate shipping situation, however, required that the Government could not continue to import one-half of the food consumed annually. A return to the land was urged by Government officials as the vital need of growing food at home became more apparent.

#### INCREASED OUTPUT

Under Robert Hudson, Minister of Agriculture and Fisheries, a determined effort was made to bring more acres under cultivation. Norfolk can be taken as an illustration of this move. In that area alone 15,000 acres of fen land were reclaimed and forty miles of concrete road were built to service them. Britain, in 1914, had possessed only 100 tractors for the entire nation but by 1941 nearly 90,000 had been placed in use. Members of agricultural colleges were employed by the Government to tour the countryside and to offer advice to farmers on approved methods of cultivation and drainage.

By 1941 some semblance of an efficient agricultural program was in operation, and record harvests were beginning to be secured. County Council workers, members of the Women's Land Army and of voluntary land clubs, students on holidays, and even Italian prisoners aided in bringing in the crops. All farm workers, who would ordinarily be called up for military service during the harvest, were deferred until after its completion. The migration of farm workers was reduced by the enactment of a measure forbidding farmers to leave the land. The need for controlling the use of land and workers was emphasized by the facts that the British population numbered nearly 7,000,000 more than in the last war, that 4,500,000 fewer acres were available for use at the start of this war than in 1914, and that only 7.5 men were available for farm work at the present time compared with 10 in 1914.<sup>2</sup> Great Britain, with a territory of only 94,279 square miles, had to feed 498 people per square mile compared with 3,022,387

square miles and 44 people per square mile in the United States.

Each County now has its own agricultural committee, composed of seven members, consisting of five farmers, and one representative of farm workers and one of the Women's Land Army. Each Committee's task has been to survey acreages to determine that each plot is used to the best advantage. The competitive spirit animating these Committees has been very akin to County Cricket. They have the power to dispossess inefficient farmers who do not cooperate with the Government but this special right has not been called into use on many occasions.

Farm laborers' wages have been increased by 10s a week and the minimum wage has been raised to 60s. The average national minimum wage for adult agricultural workers at December 1941 was double that of 1939, the result of the proposal of the local Agricultural Wages Committees to remove disparities between adjoining counties' wages. Farm wages are regulated by the Agricultural Wages Board. A number of Agricultural Wages Committees have been set up of equal numbers of farmers and workers and independent representatives appointed by the Minister of Agriculture. The Central Board decides on a national minimum wage, after consultation with the local Agricultural Wages Committee, and it then establishes detailed wage rates to conform to the national minimum. The new national minimum wage rate is about 66% higher than that existing before the war and this means the nations' agricultural wages bill has been increased by about £20,000,000.

Although only 27 out of 47 Agricultural Wages Committees have fixed women's minimum wages on a weekly basis in the future, in all probability, the policy will be extended to cover all women employed on farms. The average statutory minimum wage rates for ordinary male adult farm workers in the various counties of Britain increased by 14% between December 1941 and April 1942. The index number of prices of agricultural produce received by farmers increased by 13% between these two dates, after allowing for seasonal variations. Farmers have been assured of a rise in the fixed prices of their produce to compensate them for the higher wages but some fear has been expressed that the higher costs of production of food will make home

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produce unable to compete on equal terms with products from other countries after the war.

On November 26, 1940 the Minister of Agriculture announced that he would provide farmers with a guarantee of fixed prices for food produced during the war and for one year after its conclusion. This guarantee has provided a strong impetus to farmers, on large and small acreages, to produce maximum crops. Citizens in villages and small towns have attacked the problem of growing vegetables for their own consumption on local plots or in their own gardens. City Parks, such as the famous Hyde Park, and the moat of the Tower of London have been planted in neat rows of vegetables. Through emphasis of the "grow for victory" campaign home production has been increased and diets have been improved.

The Government's plan to guarantee to farmers fixed prices for grain, livestock, sugar beets, potatoes, milk and other products, has proved an additional restraining element to inflation.<sup>3</sup> And it has provided farmers with the higher prices necessitated by increased war costs. In some cases the Ministry of Food resells these price-fixed commodities at lower prices than those for which they were purchased. It bears any loss occasioned by the difference between sales and purchase prices, and the deficit on controlled prices at which feeding-stuffs are sold to farmers.

A recent increase of sown land to 18,000,000 acres represents a 40% improvement over the pre-war figure. A total of at least 150,000 acres of marginal land has been reclaimed, and the farm survey, completed in the Spring of 1941, provided valuable agricultural statistics and indices of the nation's long-term policy. The Agricultural (Miscellaneous Purposes) Bill, introduced in the Fall of 1941, contained provisions for the acquisition and resale by the Crown of land improved in value at public expense during the war.<sup>4</sup> Banks have aided the farming problem by appointing liaison officers in every County to discuss with the local Agricultural Committee the difficulties of farmers who, in the opinion of the Committee, should receive credit and financial aid.

The Government's agricultural policy has stressed two general purposes, and these have become more apparent as war has elapsed. First, it has endeavored to educate citizens to give



up their excessive meat consumption in favor of greenstuffs, root vegetables and milk; and, second, it has avoided prejudicing export interests of other countries during the war. With the evolution of this policy Britons have discovered new hobbies which combine pleasure and duty. Pig Clubs have fed animals on kitchen scraps, and poultry flocks have increased rapidly in most rural areas. Through the efforts of all citizens to grow, develop and save foodstuffs, stores of food have been maintained at a higher point than during peacetime. Many of the improvements made in farm land will remain during periods of peace, and much of the legislation enacted to aid the farmer to produce during the war will continue after its conclusion. Through Government impetus food production has been increased from one-fifth of the nation's pre-war, to two-thirds of its war, consumption. Britain is growing 70% more potatoes than before the conflict and the 1,000,000 tons of vegetables which she imported previously, and producing 10,000,000 more gallons of milk than in her best pre-war year. However, wheat acreages must be expanded by 600,000 additional acres, and milk and potato outputs increased by 10%.

Nearly all the arable land in the nation now is under cultivation and shortages of manpower is one of the chief problems. More than 35,000 women are engaged in agricultural work, more than twice as many as in the last war. Most of these women were former factory workers and shop and office employees and they have been trained for heavy farm work. There are also Women's Timber Corps doing the usual work of lumber camps but not under the supervision of the Ministry of Agriculture, as is the Land Army, but instead under the Ministry of Supply. Farmers, workers and agricultural scientists have worked together to secure maximum outputs of essential products and they have recognized their responsibility to continue their efforts until peace comes.

#### RATIONING OF FOODSTUFFS

Efficient food control has operated from the first day of hostilities; most of the ration allowances have been maintained at a higher level than were those of 1918 and none of them has been

lower. To prevent malnutrition the Government has reinforced bread and butter with vitamins, and mothers and children under five have been provided with a daily pint of milk for a penny or free. Higher rations of cheese have been permitted farm laborers, miners and armament workers, and invalids and vegetarians have received special ration allowances.

By October 1940 butter, sugar, tea and many kinds of meat had been placed under ration restrictions. The food problem was complicated by the fact that 66,000 men were required to produce food for 1,000,000 consumers. This meant that men had to be withheld from military service and war production, women had to be trained for farm work, and all individuals engaged in agricultural pursuits had to be guaranteed standard wages and forbidden to leave the land for other employment.

In December 1940 rationing of retail foodstuffs was initiated. Prices of coffee, biscuits, honey, meat pastes and other comestibles, which had suffered rising prices, were established as of December 2, 1940. Some articles, such as oranges, had disappeared from the market or were found in reduced quantities, not because of Government restrictions but because of the curtailment of imports. Neither life nor health has been impaired by Government food restrictions, and no citizen has been expected to live on rationed foods alone. A large proportion of the purchasing power of earners' incomes has been spent on unrationed foods to enlarge their diets and those of their families. But no citizen can eat more today than the Government has decided is good for him. Many more foods, than at the start of the war, are rationed either by weight or volume.<sup>5</sup> Meat has been rationed by value instead of by amount, and a regular weekly egg ration established. Restaurants, hotels and schools have been permitted to purchase with a license a certain portion of their normal supplies.

The Ministry of Food was organized to secure supplies, to bring them within the range of the public by resort to rationing, and to maintain low prices. The activities of the Ministry have been surveyed by the United States Government for its plan of nominating a Food Administrator in the latter country to assume over-all control of the food industry. One criticism of its plan has been that prices have not been fixed in relation to the national

trend in wages and cost.<sup>6</sup> The *Economist* has urged that the maximum practicable extension of rationing should be made and accompanied by some form of limitation of private expenditure on all foods not rationed, secured either by group and point rationing or by the limitation of total weekly expenditures in terms of money.<sup>7</sup> What the Ministry has tried to do has been to fix rations at such a level that they could be guaranteed for a reasonable period of time and not reduced hurriedly, after a limited scope of application.

In August 1941 the Ministry of Food issued an Order under which wholesalers and retailers of all main foodstuffs were required to obtain a license to sell canned goods, lemons, bacon, dried fruits, onions, and all other scarce articles.<sup>8</sup> This procedure was necessitated by the fact that scarce articles were being purchased in large quantities to sell in black markets. Under the new Order dealers could neither obtain licenses nor sell these commodities without risking the penalty of two years' imprisonment or a fine of £500. The problem of allocating regional quotas of food has been complicated by the fact that sales did not relate food directly to the size of the population in any region and to the income level of citizens.<sup>9</sup> Another difficulty has been that workers have not reduced their purchases of unrationed products which they bought to supplement their diets. Small rations made it necessary for them to buy certain quantities of unrationed foods at high prices. As a result of this practice the worker's living costs were raised beyond the level stated by the Ministry of Labor's cost of living index which was compiled chiefly from the prices of national products. This discrepancy between the nation's cost of living index and the actual cost of living has played an important part in the demands made by trade unions for increased wages, and it has led to a great deal of misunderstanding concerning wages and prices.

In October 1941 the Government inaugurated the practice of registering citizens for liquid milk. Under its milk trade rationing plan, which went into effect in September 1942, retailers were not permitted to compete for business and customers to change their milkmen. The Milk Marketing Board became the sole buyer of milk from the producer, except of that used by

producer-retailers for their own businesses, and the Ministry of Food purchased milk from the Board and sold it to distributors and manufacturers. The price of milk was guaranteed to producers, under this plan, irrespective of its sales price, and all milk was sold by the Ministry of Food at uniform prices, whether for liquid consumption or manufacture.

It had been suggested by a number of economists that certain types of food could be rationed in groups by a system of points. Each citizen, under this plan, would be granted a certain number of points which would be valid for a certain period of expenditure for a stated number of commodities. This procedure would restrict consumption and it would be less rigid and would offer more opportunity for individual variation in consumers' requirements than the direct, invariable system of rationing which has been followed. It was suggested that the maximum sum to be spent by any individual within a stated time on unrationed foods might be established, and a stamp issued which would be valid for a stated amount and cancelled by the store at the time the purchase was made. Since the aim of the war food policy was the raising of food values consumed, with allowance being made for individual requirements and preferences, the limitation of money expenditures on food was seen to have definite advantages.

During November 30,000 tons of canned goods were put on the market and an entirely new system of food distribution by points, similar to the one just described, was inaugurated to assure that foodstuffs were made available in equal shares to anyone who wished to make a purchase.<sup>10</sup> Much of this food had been obtained under Lease-Lend arrangements with the United States.

The basis of the system of distribution was a pink "Points Coupon Book, Food for 28 Days". It contained coupons each dated and marked A, B, or C. The four Coupons marked A were each worth 1 point, the 4 B coupons, which bore the same date, were each worth 1 point, and the 4 C coupons were each worth 2 points, 16 points in all. For the first four weeks of the scheme each consumer had 16 points to spend. All goods in stores were valued by points, and a purchaser could buy tongue, briskets, stewed meat, steak, rabbit, salmon and sardines—all

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canned, 16 points per pound net, herrings 12 points, meat rolls and galantines 8, or canned beans 4. To spend 16 points on one purchase a consumer could buy one-half pound of ox-tongue (8 pts) with 4 C coupons; 4 ounces of sardines (4 pts) with 14 A coupons; 1 lb. of beans (4 pts) with 4 B coupons. Coupons could be spent by consumers on more than one day in the four weeks and in more than one shop. The plan provided them with freedom to shop for new foods where and when they wished and did not require them to register with one shop for their purchases.

In January 1942 the extension of the plan to fruits and cereals by points was announced by the Ministry of Food.<sup>11</sup> This statement indicated that the Ministry was approaching a situation in which the sale of all forms of food consumed by citizens would be controlled by some form of rationing. If this were to be done every consumer would secure a minimum share of foodstuffs in terms of nutritional value and would be afforded an appreciable amount of choice in the diet followed. Then, too, with the correlation of this plan with extension of retail price control it would be possible to estimate the maximum outlay of any consumer on food. The ability to make this estimate would aid in the calculation of the cost of living for various segments of the population.

During July 1941 the Ministry of Food initiated the practice whereby consumers were required to secure ration books and to obtain their supplies of rationed foods from retailers with whom they had previously registered. This was the first step in a progressive policy imposed by the Government to secure the equitable sale of essential foods. The Ministry has varied its practices as requirements dictated. For instance, it has sometimes purchased foodstuffs for the control of prices or authorized a publicly controlled company to make the purchase. One company recently was set up to buy the entire carrot and onion crop which was marketed by the Ministry at low prices. A similar scheme was adopted for eggs. Many goods, such as apples, dried fruits, tomatoes, fish, sauces and honey, are price controlled and not rationed. Even chocolates and other candies have been placed under control. A staff of inspectors of the Ministry ensures that

storekeepers do not exceed the schedule of top prices in their sales.

Most of the foods susceptible to control have been placed under price control measures. Special allowances have been made for children and invalids. At present, for instance, children under six are guaranteed a pint of milk daily; from six to seventeen a half pint; adults receive the remainder of milk available for their share which is supplemented by dried and condensed milk. Shopkeepers are required to sell oranges for the first week after they have been received only to individuals who produce children's ration books, and only after this demand has been satisfied may any remaining oranges be sold to adults.

The food rationing system now is administered by four General Divisional Food Officers in England and Wales, and one in Scotland. A corps of 18 Divisional Food Officers supervise the operation of 1,500 local Food Control Committees, each composed of ten representatives of consumers and five of the retail food trades, all elected by local authorities. The Committees are responsible to the Ministry of Food for the administration of the local Food Offices which do the detailed work connected with the rationing system, such as the distribution of ration books and the issuance of permits to retailers to buy rationed foods.

Various types of ration cards have been placed in use besides the regular civilian book. Children under six years of age receive special documents with half the number of meat coupons of adult books; travelers who cannot use one retailer receive special books; merchant seamen who buy their own food are provided for by statutory scales laid down by the Board of Trade. Special emergency books are used to cover short periods and additional emergency coupons are available for people who are absent from home frequently. Invalids are provided with special papers which can be used in conjunction with their regular ration book. Institutions, such as mental and other hospitals, orphanages and prisons, are not required to obtain a ration book for each inmate. Instead they purchase food in the same manner as catering establishments on the basis of an allowance for each meal which they serve and they must account for food consumption by means of a detailed register.

Rationing has enlarged the British housewife's culinary skill and her knowledge of new recipes. It has also led to a certain amount of food standardization in the country, and to the improvement of bread and margarine because of the introduction of vitamins. And it has aided the storekeeper as it has guaranteed a steady flow of customers who were registered with him. However, he has been required to maintain extra accounts and to furnish detailed accounts to the Government. His greatest problem, in most instances, has been that of unrationed food. Most wholesalers sell this type of food to the retailer on a percentage basis of his pre-war supply with allowances for changes in population because of evacuations. The wholesaler, in turn, has his share of difficulties. With most important food he must work within the limits of a price control order issued by the Government. He cannot import what foodstuffs he wishes from abroad as this activity is controlled by the Ministry of Food in the case of staple goods, such as cereals, oil and oil seeds, butter, cheese, condensed milk, milk powder, eggs, bacon, meat, tea, sugar and dried fruits, and in case he wishes to go outside this scope he must obtain a license from the Ministry.

Food processing plants have been set up by the Ministry of Food. In the case of meat, eight wholesale meat supply organizations handle the entire imported and home produced meat up to the point where it enters the butcher shop. With other foods the control is less complete as it is exercised mainly through the control of profit margins and the allocation of supplies. Food continues to be distributed fairly and regularly but some reduction naturally has occurred as can be seen from the following table of staples at July 1942:

Item	Ration Per Head Per Week	Pre-War Domestic Consumption
		Per Head Per Week
Meat	1s 2d worth (approx. 1 lb.)	1 $\frac{3}{4}$ lb.
Butter and Margarine	6 oz. (not more than)	10 $\frac{1}{2}$ oz.
	2 oz. of butter)	
Cooking fat	2 oz.	
Sugar	8 oz.	16 oz.
Cheese	3 oz.	2.7 oz.
Tea	2 oz.	2.6 oz.
Bacon and Ham	4 oz.	5 $\frac{1}{2}$ oz.

A number of important foods, including bread, flour, potatoes and fish, however, remain unrationed. The prices of these commodities are controlled to provide that all citizens receive their share of them at fair prices. In the Spring of 1942 children's ration books were given to those under five years, providing priority for that age for milk, eggs, oranges and cod liver oil.

These and other measures developed by the Ministry of Food, under Lord Woolton, have been among the most successful war programs evolved. Although Britain, customarily an importing nation, has been required to live on a narrow margin of food, in order that the war machine could be developed, at no time have supplies been exhausted, and never has the citizen's life been endangered by diet. Since the Winter of 1940-41 not only has the national diet been sustained but food reserves have been increased by about one-third. The success of the system of food rationing and subsidies has been evident in the quantity and the price of food distributed. The price index for food, only 15% higher than before the war, in recent months has decreased, as the direct result of this system. The special dietary requirements of miners and heavy manual workers have been satisfied by special privileged canteens. The Ministers of Food and of Education have cooperated in a plan to ensure that children in the national schools have been adequately nourished. Stronger measures have been taken to stamp out black markets dealing in scarce food-stuffs and the consumers of the nation have been assured that adequate supplies of foodstuffs, at reasonable prices, will be available to them in the future even though shipping space becomes scarcer. The efficiency of the food policy has been sustained in spite of difficulties occasioned by the war, and it is a tribute to the staff of the Ministry of Food and to the organizational ability of the director of Britain's food policy.

#### MINISTRY OF FOOD

Nearly six million British housewives listen each morning to the radio program "The Kitchen Front", a service of the Ministry of Food. On the staff of this Ministry are over 30,000 workers, lecturers, demonstrators, dietitians and food experts. On all questions concerning the importation of food supplies the Ministry

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of War Transport aids the Ministry of Food, and close contact is maintained in addition by the latter Ministry with the Ministries of Agriculture and of Economic Warfare.

The Ministry of Food's main activities, however, have been concentrated upon the supply of food for the military forces and civilians, the distribution of this supply, and the legal, financial and public relations work connected with the use of food. Through the development of the country's import policy the Ministry became the chief importer of wheat, sugar, meat, bacon, butter and tea, and the sole purchaser of home-produced meat and creamery butter. Most foods pass through its hands at the wholesale stage only, with further distribution controlled by its maximum price orders. Ownership of the food remains in the Ministry until it reaches the retailer. Potatoes, liquid and canned milk and herrings are controlled by price orders but are not the property of the Ministry. Any foodstuffs that have not been subjected to price control can only be imported under special license. The importation and trade in foodstuffs has been regulated by the needs of consumers and by the supplies of foreign exchange available. Foods not imported by the Ministry are subjected to import license without which traders cannot secure them from abroad. As a rule, former importers have been employed as agents of the Ministry for overseas purchasing.

The Government called upon many non-official bodies of wholesalers and retailers to aid it in the distribution of food. The extent of the control over distribution and price, however, has varied. In the case of meat, the Ministry buys, slaughters and distributes meat to retailers. In other instances it only controls the wholesale price and leaves the distribution to trade associations. Food, for example, sometimes is controlled as to price at the wholesale stage, sometimes at the retail, sometimes at both. In general, the Ministry has operated through trade associations which buy and distribute food under its direction. All retail traders are licensed by it and subjected to its various measures and requirements.

Under the wartime food plan each consumer is tied to a retailer, and each retailer with a wholesaler. Each consumer must register with a specific retailer for supplies and must continue to

purchase from him exclusively. The flow of supplies is controlled by the issue to retailers of buying permits for rationed commodities. These are sent to wholesalers. Quantities stated on buying permits are based on the number of the retailer's registered customers and the ration authorized for the food under consideration.

The first step in distributing food for the Ministry is carried out by firms that were engaged in this type of business before the war. In some cases, as in that of sugar, individual brokers act on behalf of the Ministry; in other instances associations of firms carry out this work and are remunerated on the basis of the quantity of goods handled. In a few cases specially formed trade associations, such as the Meat Importers National Defense Association, Ltd., act as agent for the Ministry in handling imported foods. Most food processing plants now are under the control of the Ministry as well as all oil seed crushing and compound lard plants. This control has been secured by issuance of direct instructions by the Ministry, or by the control of the processor's profit margins or of his raw material supplies.

The Ministry's miscellaneous functions are concerned with ascertaining that its regulations are carried out with intelligence and according to the law. Its inspectors ascertain that all traders carry on their businesses in accordance with legislative measures and its agents track down individuals who carry on questionable practices. The food advice centers maintained by it give information about food preparation and consumption. Emergency food distribution schemes have been worked out by it in cooperation with the heads of the fourteen defense regions into which the country has been divided. In each district an official of the Ministry has the task of supervising the distribution of food supplies in a crisis. As yet the accumulated food stores and the super-emergency ration have not been put into operation but after one devastating raid in East London the local civil defense officers appropriated some of the accumulated supplies for the people whose needs were most urgent. At the present time there are over 10,000 emergency stores for non-perishable foods in various parts of Britain with a selection of twelve of the chief foods maintained in each depot. The extension of the Lease-Lend Act

in February 1941 to include foodstuffs widened the diet a great deal and covered such items as evaporated and dried milk, cheese, bacon and lard, eggs, canned meats and fish, and dried fruits.

The subsidization of foodstuffs was extended in 1941 to cover eggs and potatoes and later sugar. The subsidy paid for potato production has proved to be an important experiment. Under it the remuneration for the crop is partly by the payment of £10 for every acre devoted to the production in June 1941, and partly on the tonnage basis. The new system, approved by all growers, was announced in September 1941 and covered 340,000 growers. During 1941, also, the Ministry through its agent, the National Vegetable Marketing Company, became the sole purchaser at a guaranteed price of all carrots and onions grown on holdings of over one acre.

In January 1941 the Food (Current Prices) Order stabilized the price of a large number of specified foods at the level of December 2, 1940. The majority of the foods included in this Order came under specific maximum price orders during the course of the year. Many other foods were also brought under price control and by the end of 1941 ninety Maximum Price Orders were in force compared with forty-eight at the beginning of the year.

One of the most notable achievements of the Ministry during 1941 was the securing of control over home-produced perishable foods, such as fish, tomatoes, poultry and soft fruit. Under the latter control the price structure was designed so as to divert the greater part of the fruit from the open market to jam factories. Many kinds of manufactured goods, such as marmalade, syrup, canned meat products, soups, breakfast cereals, pickles, sauces, chocolate and sugar confectionery, were controlled during 1941 and uniform prices for bread for the entire country, with the exception of sparsely populated and de-populated areas, were secured in place of the former standstill prices.

During July 1941, to secure economies in distribution, supplies of rationed foods were withdrawn from retailers having less than twenty-five consumer registrations. In August the Food (Restriction of Dealings) Order was passed which prohibited, except under license, wholesale dealings in a large list of specified foods.

Announcement was made at that time that licenses of all traders, both wholesalers and retailers, would be revoked for persistent offense. Later the Food Substitutes (Order) provided for the licensing of food substitutes by the Ministry, and an Order made at the end of November 1941 provided for the licensing, instead of registration, of catering and residential establishments.

The distribution of certain foods, which could not be placed under rigid rationing schemes by the Ministry, has been controlled. The following description of this distribution provides an insight into the difficulties occasioned by certain foodstuffs and the methods followed to subject them to an equitable distribution scheme:

### *Milk*

In April 1941 the Sale of Milk (Restriction) Order provided for a cut of one-seventh in supplies to non-priority consumers during the following summer; this Order was replaced in October by the Milk (Scheme of Supply) Order. The object of these measures was to guarantee an adequate supply of milk to priority classes, such as expectant mothers, infants, children, adolescents, invalids, schools and hospitals. As production dropped the Ministry of Food proceeded to equalize distribution, instructing retailers, except producer-retailers in small towns and in the country, to limit supplies to non-priority consumers to 2 pints per head per week.

### *Eggs*

The egg distribution plan commenced on June 30, 1941. The Ministry, through licensed packing stations, became the sole purchaser of eggs from producers with more than 50 chickens, and arranged for the distribution of eggs through all stages to the consumer who was permitted to buy only from his registered retailer. To encourage sales to packing stations, the producer was paid a higher price there than the consumer paid in retail shops or than the price on sales by a producer-retailer with only 50 birds or less, the difference being covered by subsidy.

### *Onions*

In September 1941 consumers were asked to reserve supplies with the retailers. Since that time distribution has been carried out on the basis of these reservations.

*Fruit Juices and Cod Liver Oil*

The plan for supplying fruit juices and cod liver oil to infants under 2 years of age was introduced in December 1941. The distribution, which was free, was made through Welfare Centers and other distribution set up by the Food Offices under the Ministry.

*Oranges*

In September 1941 a distribution plan for oranges was introduced by which retailers reserved supplies for holders of a child's ration book for seven days, later altered to five days. In order to ensure that supplies were equitably distributed an allocation plan was set up under the Ministry's guidance by all branches of the trade.

Rations in food stated by the Ministry, in general, have reflected the trend of supplies, and food has been distributed on the basis of six-monthly ration books, formerly, and recently by yearly books each of which was accompanied by a supplementary (yellow) ration book. No compulsory re-registration occurred in January 1941 when consumers who wished to change their retailers were allowed to do so during a specified period. A general re-registration occurred in July 1941 because of the population movements caused by air raids. At the end of 1941, because of the success of the Navy and Merchant Marine in the Atlantic and the absence of heavy air bombardments, food stocks were higher than in September 1939. The conservation of supplies and the assurance of an equitable distribution of vital foodstuffs to the entire population have been carried to a successful stage by the Ministry of Food. Its policies have been sufficiently flexible to permit increases and decreases in rations as circumstances permitted or required.

## COMMUNAL FEEDING

The Ministry of Food has experimented with mass feeding of citizens to conserve food, water, gas and electricity, and to ensure that civilians obtained the requisites of a good diet. In pursuit of this program it set up four types of communal feeding centers, consisting of rest services, meal services, mobile canteens and tube canteens. By February 1941 it had set up 100 communal feeding centers, providing 38,000 meals daily. Each meal cost 7d and

included bread, meat, two vegetables and a pudding, with tea or coffee supplied for 1d more.

Mobile food convoys, organized by the Ministry, also, have done valuable work in badly bombed areas. England and Wales were divided into 18 areas, in each of which a complete unit was stationed. Immediately upon receipt of notification by the officer in charge that a town required aid the convoy moved forward. Eight large vehicles made up the unit and consisted of one 300 gallon mobile water tank; two lorries with food supplies sufficient for 12,000 meals; two lorries carrying kitchen equipment, boilers and fuel; and three mobile canteens. Ahead of the convoy five motor-cyclists cleared the road and acted as liaison officers with the Local Authorities. The main part of the menu of these convoys was a highly concentrated soup, easily prepared, and large stocks of vitamin bread, meat sandwiches, corned beef, biscuits, tinned milk, sugar and tea were carried. For babies there were children's foods and hundreds of feeding bottles. Each canteen had six soup urns, with a total capacity of 600 bowls, and six tea urns with a capacity of 100 cups. Two thousand meals could be served by each canteen in a period of two hours.

The convoys, as a rule, moved up to the bombed area at dawn, setting up headquarters in the center of the most devastated section. At night they withdrew in order not to disrupt A.R.P. Services. At Portsmouth, however, the convoys stayed on the job for 24 hours, serving the homeless, A.R.P. workers and firemen. At Coventry one convoy supplied 14,000 meals while stationed within 100 yards of a large unexploded time bomb. Another convoy at the same place made a record by serving 300 pints of hot soup within half an hour after a very heavy raid.

Community kitchens were set up to feed evacuated people in reception areas. Although the work of these kitchens has been carried on by evacuated women and volunteers the Ministry of Food has taken over the financial responsibility of the centers from the Ministry of Health. The plan has been extended so that residents of towns as well as evacuees may take meals in them. At the present time all factories engaged in war production may be directed by the Ministry of Labor to set up canteens. It is the duty of this Ministry's Welfare Officer in the factory to ascertain

that workers can obtain satisfactory meals and that, if no canteen exists, local authorities establish a communal restaurant or canteen in a nearby town.

The majority of the air raid shelters have their own catering arrangements now in operation. They are served by private caterers, by coffee stalls or by voluntary organizations. In December 1940 the Ministry of Food began to regulate the sale of food and drinks in London shelters and each local authority was asked to ascertain that the scale of prices was reasonable.

The communal feeding of citizens has proved extremely popular contrary to the original opinion held for its success. It was believed, at the inception of the plan, that it was doomed to failure as this type of eating had never been a feature of British life. So many citizens, however, expressed their desire to eat in canteens rather than in their homes that a Director General of Communal Feeding was appointed to make large scale plans for extending the establishment of centralized community restaurants. The provision of cheap, well-cooked food has proved of special value to people who have been bombed out of their homes. It has served, also, to level the social barriers throughout the nation and to knit all groups of people closely together.

The Food (Restriction of Meals in Establishments) Order of February 1941 limited the number of main and subsidiary dishes that could be served in catering and other establishments. British Restaurants, centers of cooking and feeding and numbering over a thousand, have been organized all over the country.<sup>12</sup> They supply meals consisting of meat and two vegetables and a sweet at a cost of a shilling, less if the food is taken out for cooking and eaten at home. All labor in these restaurants is given voluntarily. Meat allowances granted them are the same as given to London's most expensive cafes and customers do not need to surrender coupons for meat dishes. Food Grids, also, have been set up within seven to ten miles of the town they serve and they can produce 6,000 meals in a four-hour period and send them into the bombed town by mobile canteen or car. At the present time 250,000 people take their main meal in these British Restaurants and in many areas they have been accepted as permanent additions to the social services. They are one of the most interesting

developments of the social service system during the war and they have effected both communal and domestic life to an appreciable extent. They provide all people with a better cooked and more appetizing meal once a day than many of them have ever been able to obtain before; they afford housewives with an extra hour or more of leisure; they give children good food in clean and pleasant surroundings. Many of these restaurants have even adopted intriguing names, such as, the "Cheerful Platter" in Chelsea and the "Mayfair Kitchen" in the West End of London.

The Minister of Food for many months of the war refused to ration restaurant meals taking the position that the saving in that manner would be of small amount. The clamor of the public for this move, however, led him, in April 1942, to retract his original stand and to ban the sale of meals after 11 p.m. except to hotel residents and at places catering to night workers. Later, he insisted that hotel meals consist of only three courses and cost 5s. Provision was made for extra charges for music and entertainment as well as for cover charges where the overhead justified them. For example, the Savoy and the Ritz Hotels have been permitted to impose a cover charge of 7s 6d to start, with the meal costing 5s, and if there is music an additional charge of 3s 6d will be permitted, totaling 16s in all. The object of this move, which went into effect June 1, 1942, was to respond to public demand for a Government curb of restaurant eating.

One of the problems that has emanated from the war has been the obtaining of supplies by war workers and women employed during shopping hours. Several factories have permitted women to take time off to shop; while they were not paid for this period they were permitted to work overtime to make up for their shopping period and were paid overtime rates for this work. Many local Chambers of Commerce have issued shopping cards to war workers which pass them to the head of queues or give them access to shops at special hours arranged with local shopkeepers. In some districts a special delivery service to war workers' homes has been started by Boy Scouts and school children. In other sections shops stay open until 8 p.m. on Fridays to give time for workers to shop. Neighbors' Leagues, organized in industrial areas, shop for women workers and share delicacies among their members. A



cooperative spirit, never before so apparent in Britain, has developed among all classes of people as the result of this war, and many of the communal eating and shopping services may continue after it.

#### PLANNING AND MAINTAINING FOOD SUPPLIES

The continuous struggle that the Government has made to maintain food for children, adults, invalids and the aged has passed through three critical periods, including the curtailment of supplies from Europe, the intensive air attack on London, Liverpool and other ports, and the closing of the Mediterranean and the Battle of Africa. It has included the loss of the markets in Europe, of ships, and of food factories, warehouses and ports. E. M. H. Lloyd, Chief Economic Adviser to the Ministry of Food, has summed up the more pertinent aspects of the food situation as follows:

1. Britain has had enough food in quantity to stave off hunger but not enough of the right quality from the standpoint of morale and optimum nutrition.
2. There has been no wheat shortage as in the last war and there have been ample supplies of bread, flour, potatoes and carrots.
3. There is less waste and wasteful feeding.
4. The fighting forces take about 10% of the rationed foods and those now under arms are better fed than they were before the war.
5. The lower income groups have suffered less deprivation than the well-to-do.
6. From a nutritional standpoint the chief concern of the Ministry of Food has been to arrest the decline in the supply of foods providing first-class protein, calcium and vitamin A.
7. The most striking application of nutritional policy during the war has been the introduction of the National Milk Scheme.
8. The Ministry of Food assumed complete control of the manufacture and supply of synthetic vitamins about the middle of 1941.
9. Under the guidance of nutritional experts a new social service has been introduced during the war which is likely to remain, namely, the provision of cheap or free milk and vitamins for the mothers and young children of the nation.
10. There is no evidence that the common disorders of malnutrition

such as rickets and scurvy have increased, but there appears to be some increase in tuberculosis, among women from twenty to thirty, partly but not entirely due to wrong feeding.

11. The marked improvement that has taken place during the last six months is mainly due to the supply of protective foods selected on nutritional grounds from the United States.

In March 1942 a Combined Food Committee was set up in Washington to coordinate the work of the U. S. Department of Agriculture and the British Ministry of Food, and the purchase and distribution of food of both countries so that they were supplied with available foodstuffs. Through its work the food situation has been handled as well or better than any other supply problem and many interesting experiments have developed.

One of the most important schemes originating in Britain has been that of allotment gardens. At the present time there are over 1,500,000 of these gardens in England and Wales and about 80,000 in Scotland and Northern Ireland. The majority in England, Ireland and Wales cover 300 square yards but in Scotland they are usually only 200 yards. The project aims to grow food in areas where it is to be consumed thus eliminating heavy transportation costs and providing a substitute for former imported foods. Efforts have been to urge each allotment-holder to grow all the vegetables he needs for the entire year.

In the usual allotment of 300 square yards one-sixth of the plot is planted with early potatoes with other space devoted to the raising of carrots, parsnips, kale, broccoli and cabbage and also onions, shallots and leeks. A survey of the plan revealed that holders tended to grow too many summer crops and the Ministry of Agriculture has organized an educational campaign to urge allotment-holders to grow for both winter and summer consumption. The National Allotments Society, a voluntary organization, cooperates with the Ministry to increase allotment-holding. It has enrolled more than a thousand new allotment associations since September 1939. The functions of these associations have been to secure cooperative land-renting, and the purchase of seeds, seed potatoes, fertilizers and small implements at wholesale rates for distribution to members. The average value of produce calculated at retail prices prevailing in the Autumn of

1941 was about £12 per allotment cultivation. Nearly 35% of the total allotments set up since the war started have been made on previously uncultivated land and they have been carried forward by inexperienced gardeners. Taking an average of £9 per plot cultivated an aggregate yield of about £12,000,000 worth of vegetables of at least 600,000 tons has been added to the nation's stores.

Farmers have been provided with priority for their animals. The rank is: first, milk cattle; then, in order, beef cattle; sheep; pigs and poultry, and this priority has been implemented by differential scales of rationing of available animal feeding materials. The rationing of feeding stuffs for all kinds of live-stock, including domestic poultry and town horses, was introduced in February 1941. The Ministry of Agriculture is responsible for fixing the rations for individual livestock owners, but the task of the Ministry of Food is to control supplies through the chain of distribution and to ascertain that coupons are honored. All farmers must sell their sheep, cattle and pigs to the latter Ministry at prescribed prices.

Backyard poultry units and pig clubs have added 15,000,000 chickens and 3,300 tons of pork per year. The response of amateur farms and poultry raisers has been excellent. Each farmer now knows exactly what he is to produce, and many Counties have prepared maps for each of their farmers showing every field and the crop that is to be grown on it. The program, once established, cannot be changed except by the County Committee's permission. This is a drastic change for the one-time independent farmer but few protests have been heard. The nation's strides toward self-sufficiency have been marked and they will be carried forward in the remaining years of the war.

The record harvest of 1942 has been based on an increased wheat acreage of one-third and potato acreage of 70%, but more than that to the fact that good British farmers now get 40 bushels of wheat an acre, many get more than 50 and some even get 80 or more, compared with a pre-war average of 33. The course of British agricultural policy during the war will, to a large extent, dictate the post-war farm situation. The experimental approaches to farming, ranging from intensified cultivation of acreages to

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the new communal farming project by which 20,000 acres in New Forest are used to support 10,000 head of cattle, have been universally accepted. Through the combined efforts of the Ministers of Agriculture and Food, and that of farmers and amateur farmers, vital supplies of foodstuffs have been maintained and their distribution has been placed on an equitable basis. In addition, citizens have continued, because of these cooperative efforts, to be better fed than civilians in enemy countries in spite of the curtailment of foreign markets, the loss of valuable food stores, and the call-up of farmers into the armed forces. Because of the war communal feeding has been developed, inside and outside factories, better diets have been introduced in many low-income households, and the health of civilians has been improved far beyond expectations. Britain should emerge from the war in better shape, agriculturally that is, than she was in September 1939 and the best experiments will be carried into the future to continue the development of farming on a scientific, countrywide basis, carrying forward the work the Government initiated during the war period.

## -CHAPTER IX

### DEVELOPMENT OF TRADE AND TRANSPORTATION

To ensure her first line of defense Britain, during the war, had to strengthen and sustain her commerce with the outside world, and to increase the proportion of current imports paid for by current exports in order that foreign exchange might be conserved.

Britain for years had ruled the seas and held a primary position in the foreign trades but, with actual combat, the entire picture changed overnight. Supplies of war materials had to be imported in an endless stream of increasing quantity. By September 1940, after a year of war, orders were being placed at the rate of £40,000,000 a month. Many markets, however, were closed; iron and steel, once imported from the Continent, had to be obtained from the United States. The Government was forced to ration imports in order to ascertain that only vital materials entered the country and, at the same time, it endeavored to expand the colonial trade, to patrol shipping lanes and to maintain a constant blockade of the enemy. It required all importers to apply for permission to acquire foreign exchange for purchases and it rationed transport facilities.

As exports were the only indirect means of purchasing war supplies abroad an attempt was made to sustain the export trades but this proved to be a losing battle. With the conversion of large sections of civilian production to a war basis products, formerly exported, were no longer produced or only manufactured in sufficient quantities to supply the home market. A constant struggle was made to maintain exports at such a volume that would provide foreign exchange for essential imports but later the policy had to be modified to continuing exportation of goods to countries

with which friendly relations were essential and which could obtain their supplies from no other friendly nation.

#### EXPORT GROUPS

The war was over five months old before the British Export Council was set up. It possessed advisory powers only but it proved a great incentive to the organization of the export trades on a war basis. By September 1941, through its efforts, 260 export groups were in existence but their establishment had proved hampering, to some extent, to individual exporters. These groups, although they lacked the advantage of a Government Department to promote their activities, were required to obtain permits from the Crown in the same manner as did individual exporters. The Government did not provide sufficient supervision and guidance to the various groups, and many critics felt that it would have been better if the export trades had been set up by the Government and kept under its complete control as were other branches of commerce.<sup>1</sup>

As domestic productive efforts became more concentrated upon the war the export trades suffered further severe set-backs. They were not provided with priority over the domestic market as to essential materials and this proved to be a serious handicap. Not until February 1941 was the machinery organized by means of the Export Council to handle the allocation of raw materials for export orders under an arrangement with the Ministry of Supply and the raw material controllers. In May groups in various industrial branches were organized to prepare an export campaign to increase the exportation of home-produced goods by enlarging old markets and invading new areas.

The Ministry of Economic Warfare was provided with power to veto the export of goods to certain destinations. In some cases this veto power did not need to be exercised because insufficient facilities were provided to transport the goods. Sometimes the Treasury objected to the export plans because of certain foreign exchange restrictions it had imposed upon the importing country. As a general rule, goods were not exported to a country with exchange restrictions, unless their sale price could be used for

making essential purchases in these countries and unless adequate shipping space was available for the delivery of the goods.

The Board of Trade and the Ministry of Labor collaborated in providing skilled labor in sufficient volume for the production of export goods. At the same time they insisted that this production should at no time interfere with that for war purposes. After the loss of large quantities of war materials at Dunkirk production for export purposes was diverted to the war effort to such a marked degree that it required many months to obtain sufficient goods to satisfy export orders.

British exporters to the United States were required by Government order to accept payment for their goods not in sterling but instead in American dollars, a practice adopted to increase reserves and to maintain dollar holdings. The Government wished to meet the rising cost of imports from export proceeds but this proved to be an impossible task as imports continued to expand. The volume of exports did not react favorably to the plan of expansion until the close of 1939 and it did not increase after that year above the average level of the previous year in spite of price rises. A decline of 6% in exports for 1940 compared with 1938 was suffered, with a decrease of 14.5% already registered for 1939 compared with 1938. In the face of this adverse general situation British exports to the United States rose from 32.5% (of total U. S. imports) in 1938, to 35.8% in 1939, to 43% in 1940. The procedure was observed of not prejudicing export interests of other countries. Special surveys were made by the Government in North and South America to ascertain the types of products that could be exported to these areas. A trading company, representing over 100 leading British manufacturers, called the Associated Manufacturers of British Coats and Suits, Ltd., was formed in the United States to facilitate the sale of sportswear for women. Goods, under this plan, were manufactured of British fabrics but on the American size system and from American models.

The export drive resulted in increased shipments of cotton yarns and manufactures, drinks and tobacco, and textiles. But, as a rule, traders have continued to express grave concern over

the possibility of regaining lost export markets at the end of the war. At that time exports must be increased in order that obligations incurred through Lease-Lend may be satisfied.<sup>2</sup> Reconstruction of British exports, it is recognized today, will be a life and death matter for Britain. One of the most profitable methods of obtaining American dollars in recent months has been through the sale of diamonds to the United States. The Government has approved the exportation of at least 75% of all stones purchased at London auctions.<sup>3</sup>

It is apparent that many markets may prove difficult or impossible to recapture after the war. Of Britain's 22 best customers, 10 either are fighting against her, have been conquered or are inaccessible to her ships. For example, the export of cotton yarn has fallen from 15,800,000 pounds in the first half of 1941 to 8,900,000 in the same period of 1942, and shipments of cotton piece goods declined from 363,800,000 to 159,500,000 square yards. These data emphasize the necessity of diverting to the home market large quantities of goods customarily exported. The levy of 5d on every 100 pounds of raw cotton acquired by spinners, introduced in 1940 to accumulate funds to promote exports, has been suspended because the Government no longer is interested in promoting exports. It is apparent that a permanent coordinating body for the cotton industry is essential because the industry has lost many of its most valuable foreign markets and has been unable to adjust itself to wartime conditions.

The development of the total war economy has meant that it has become no longer feasible for the Government to attempt to widen the export market during the remainder of this conflict. From the collapse of France the entire export picture was altered and unlimited exports could not be encouraged. By September 1942 the shortage of shipping space became so acute that new cuts in exports were made to the extent that exports for Africa, Palestine, Transjordan and Cyprus were placed under license to prevent non-essential shipments. Today the policy has been stated that no foreign trade is to be permitted outside of that which produces dollar payments. Empire divisions have restricted their imports from Britain to essential requirements in the interests of economy of exchange and shipping space. This general trend has



been manifest in a number of directions in recent months. As the expansion of industry for war purposes cannot be reversed rapidly it is recognized that years may elapse before the export policy of pre-war years is regained. John Maynard Keynes has stated that, in his opinion, exports must be increased at least 50% over those of 1938, and that it will take three years to recover from the adverse effects of the war.

#### LEASE-LEND ACT

The enactment of the Lease-Lend measure made further restrictions on Britain's foreign trade as it diminished the need for dollars to pay for British purchases in the United States and led to an increasingly selective export policy. The United States has been provided with the guarantee of the British Government that there will be no use of Lease-Lend materials, or their equivalents, to compete with American exports in foreign markets. British advertisements have not encouraged the purchase of merchandise obtained through this Act and, instead, have been concentrated upon the maintenance of British prestige in the minds of overseas customers.

From the beginning of the war the basic principle observed for the export trades was that exports should be regarded merely as an indirect method of obtaining war supplies, preferably by diversion of export industries to direct war production. This indirect method was pursued, however, only to the point where it could make a larger contribution to the war effort than by the more direct procedure of actual exportation of goods. At the beginning of the war productive resources were directed to satisfying export requirements and a large number of non-belligerent countries, at that time, furnished essential supplies and received export goods in exchange. The export drive was slowed down by the closing of Continental markets, customarily taking 35% of total British exports, by increasing pressure on shipping space and, finally, by the passage of the Lease-Lend Act. Dollar-earning exports became subject to the same considerations which applied, previously, to exports within the sterling area, that is they have had to prove that they were essential to the importing country and that only Britain could satisfy its requirements.

In a memorandum issued in connection with the use of materials received by Britain under the Lease-Lend Act the restrictions were stated by the British Government as follows:<sup>4</sup>

1. All materials which we obtain under the Lease-Lend Act are required for the prosecution of the war effort. This principle governs all questions of the distribution and use of such goods, and His Majesty's Government have taken and will continue to take action to secure that these goods are not in any case diverted to the furtherance of private interests.

*Export Policy*

2. Lease-Lend Materials sent to this country have not been used for export, and every effort will be made in the future to ensure that they are not used for export, subject to the principle that where complete physical segregation of Lease-Lend materials is impracticable, domestic consumption of the material in question shall be at least equal to the amounts received under Lease-Lend.
3. His Majesty's Government have not applied, and will not apply, any materials similar to those supplied under Lease-Lend in such a way as to enable their exporters to enter new markets or to extend their export trade at the expense of the United States exporters. Owing to the need to devote all available capacity and man-power to war production, the United Kingdom export trade is restricted to the irreducible minimum necessary to supply or obtain materials essential to the war effort.
4. For some time past, exports from the United Kingdom have been more and more confined to those essential (a) for the supply of vital requirements of overseas countries, particularly in the sterling Empire; (b) for the acquisition of foreign exchange, particularly in the Western Hemisphere. His Majesty's Government have adopted the policy summarized below:

(1) No materials of a type the use of which is being restricted to the United States on the grounds of short supply, and by payment or on lease-lend terms, will be used in exports with the exception of the following special cases:

(a) Material which is needed overseas in connection with supplies essential to the war effort for ourselves and our Allies, and which cannot be obtained from the United States.

(b) Small quantities of such materials needed as minor though essential components of exports which other-

wise were composed of materials not in short supply in the United States.

- (c) Repair parts for British machinery and plant now in use, and machinery and plant needed to complete installations now under construction, so long as they have already been contracted for.

Steps have been taken to prevent the export (except to the Empire and Allied territories) of such goods which do not come within the exceptions referred to in (a), (b) and (c) above.

- (2) Materials similar to those being provided under Lease-Lend which are not in short supply in the United States will not be used for export in quantities greater than those which we ourselves produce or buy from any source.

5. *Distribution to the United Kingdom of Lease-Lend Goods*

The general principle followed in this matter is that the remuneration received by the distributors, whatever the method of distribution, is controlled and will be no more than a fair return for the services rendered in the work of distribution. The arrangements rigorously exclude any opportunity for a speculative profit by private interests dealing in Lease-Lend goods. In most cases, Lease-Lend supplies will be distributed through organizations acting as agents of His Majesty's Government in strict sense of the term, and not as principals. Where for strong practical reasons this cannot be done a full explanation will be supplied to the U. S. administration and their concurrence sought beforehand in any alternative arrangements proposed. The justification for retaining existing channels of distribution operating under strict Government control is that the creation of elaborate new organizations in their place would inevitably result in loss of efficiency and the wasteful use of manpower, and retard the war effort. In the distribution of Lease-Lend goods there will be no discrimination against United States firms.

- 6. Food is a special case. Only some 5% or 6% in tonnage of the total British food supply is coming from the United States and, without great practical complications, it would be impossible to have a separate system for the distribution of Lease-Lend food. Food distribution is carried out in the United Kingdom by wholesalers, to whom the Government sells food as principals. In fact, the Ministry of Food has established a close control over all distributive margins, so that neither the wholesalers nor the retailers

receive any greater remuneration than is adequate to cover the cost of the services performed. No food obtained on Lease-Lend terms is or will be sold at uncontrolled prices. Thus the general arrangements as regards the issue of Lease-Lend food fit into His Majesty's Government's policy of stabilizing the whole price level of foodstuffs, a policy to which the Government contributes £100,000,000 a year.

7. In some cases direct free distribution is practicable and will be adopted. For example, some milk products (including Lease-Lend supplies from the United States) are distributed direct and free of charge to children and others in need through schools, clinics and hospitals. The distribution is undertaken by State agencies and the cost of distribution is borne by the Government.

As materials under the Lease-Lend program have been made available to Britain the gaps in the plan, under which no definite agreement existed regarding payment of supplies from the United States, became more apparent. In January 1942 the press brought this matter to the fore and suggested that the time had arrived for a formal understanding with the United States along the same lines as those found in the agreement reached between the United States and Canada. This later was secured.

Shipments to Britain under the Lease-Lend Act to the first part of April 1942 totaled £350,000,000. This compares with £650,000,000 for pre-Lease-Lend shipments for which the British Government paid with dollars. At the present time certain war materials are being shipped by Britain to the United States offsetting the amounts owed in the latter country. Also, Britain is providing services to American troops in Northern Ireland and Australia and the cost of accommodations, food and shipping will be offset against payments due the United States by Britain. All Lease-Lend settlements have been deferred until after the war and they shall be "directed to the expansion by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives

set forth in the joint declaration made on Aug. 12, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom." Negotiations are taking place between America and Britain to determine the best means of securing their economic union.

At the present time the United States is extending Lease-Lend aid of £2,200,000,000 of which the major share goes to Britain and the remainder to India and the Dominions. The repayment of this debt represents one of the large post-war problems to be faced by Britain, but without receiving the goods it represents the country would have suffered through lack of materials of all kinds essential to the support of the war economy and civilian morale. Not considering indebtedness to other countries the internal debt of Britain has been increased from £7,250,000,000 in March 1939 to approximately £13,000,000,000 at the end of March 1942. The burden of interest payments on this debt, however, is less than expected as it expanded from £217,000,000 in 1939 to £257,000,000 in 1941. This is explained by the fact that the average rate of interest has been reduced from 2.66% to 1.83%. As these figures do not include Lease-Lend commitments the debt would have been much larger if all goods and materials received from the United States had been financed on a cash basis. The value of the Lease-Lend measure, therefore, has not been underestimated in Britain at any period during the war and the desire to reach an equitable and complete settlement of amounts owed to the United States has been expressed on a number of occasions by Government officials. As the rapidity of achieving this objective will depend to a marked extent upon the development of the export trade of Britain and the revival of her pre-war markets much remains to be accomplished in the post-war period.

#### IMPORTATION OF GOODS

When the war began approximately 60% of all food consumed in Britain and 93% of fats, 77% of fruits, 74% of sugar, 51% of meats and 40% of eggs were imported. The Essential Commodities Reserves Act of July 1936 provided the Government with power to accumulate pre-war stocks of raw materials but it did not cover the accumulation of food with the exception of

wheat. During the progress of the war regular supplies of food-stuffs, raw materials and finished goods have come to Britain from the outside world, and in many cases the Government has had to draw upon its gold and foreign exchange reserve and upon its investments abroad to pay outstanding obligations arising from these transactions.

In 1939 the Government began to encourage shipbuilding by granting financial assistance to builders. The convoy system, which was used to ensure safe delivery of cargoes, materially reduced the actual tonnage carried but all tonnage was placed under Government control to prevent waste and to recognize priorities. Government purchases were made at a fixed price for all raw materials produced by the Dominions and Colonies with sterling used as the medium of exchange. Although the exporter of these goods was permitted to spend his money in the Empire he was required to respect priorities and to buy Empire goods made from Empire material by Empire labor. In addition, he had to lend his receipts to the Government or to deposit them in a bank which subsequently loaned them to it.

Agreements were signed with principal raw material producers in various parts of the world who, because of loss of markets and the imposition of the blockade, accepted British terms and sold their goods against payment in sterling blocked and not convertible into gold or foreign exchange to be used only in the purchase of British goods. The selling price of the raw materials and the rate of exchange between the producer's currency and British sterling were fixed by the Government.

The principal importations of food at the present time consist of butter, meat and wheat. These are, to a large extent, purchased in the United States and transported to Britain by convoy. In May 1941, because of increased home production, food imports fell from 60% of total consumption to 35%. Now food requirements are covered to the extent of approximately 66% by home production.

Five Ministers, the chief importers for the war industries, were formed into the Executive Committee for Imports. This group consisted of the President of the Board of Trade, the First Lord of the Admiralty, and the Ministers of Aircraft Production, Food,

and Supply, and it restricted imports to essentials only, exercised control over all orders placed, and made arrangements for shipping goods to and from foreign countries.

Imports from the United States constituted 41.8% (of the United States total) in 1938; 40.3% in 1939 and 52% in 1940. Total imports rose 20% from 1938 to 1939 and 25% from 1939 to 1940. Thirty per cent of all British imports formerly were made from Continental Europe and these markets have been closed yet the adverse trade balance has risen from £27,000,000 per month to £49,000,000 per month in spite of the tightening of import control. An Import Executive of the Cabinet, set up in January 1941, now ascertains that only licensed imports reach Britain. All shipping space is rationed by the Ministry of War Transport. Imports not essential to the war effort or to the maintenance of the health or morale of the civilian population have been rigidly excluded.

The Government has extended its agreements with the Governments of Australia and New Zealand to buy the entire surplus of the wool clips for the duration of the war and for one year after its conclusion, and to buy all produce that can be shipped, sharing the cost of acquiring and holding reserve stocks of storable foodstuffs for which shipping space is not available. A recent British contract calls for shipment of 498,486 tons of beef from October 1, 1941 until September 30, 1942, the entire exportable surplus of Argentina, at prices of 7-10% above prevailing prices.

The export and import of commodities have become increasingly complex and they have depended upon the maintenance of satisfactory international relations with non-Axis countries. As market after market has been closed by war Britain has concentrated her trade in the Western Hemisphere. The slogan "Britain Delivers the Goods" has appeared in many shop windows in both North and South America. This promise, solemnly made and kept, has furthered the prestige of the British people and it has enhanced their trade much more than could any advertising campaign. The development of the Lease-Lend Act has offered the country an enormous impetus but the constant struggle to maintain old markets and to acquire new traders continues unabated.

One of the difficulties that arose was that of trade with neutral

countries that did not have Lease-Lend agreements. These nations, including Portugal and Spain, could not obtain goods from Britain in return for their exports to her and they were not permitted to draw on their sterling balances accumulating in London. Since the export drive has lost its intensity sterling credits have mounted rapidly. Britain has reduced shipments of consumers' goods to foreign countries but she is under obligation to export war materials to nations associated with her in the war effort, such as Russia and the Empire countries. To satisfy this requirement the Government has imported timber, cork, tin, pyrites, wolfram, rosin, mercury, iron, and many foods including canned fish, meat, coffee, and cocoa. Products which normally would be exported, such as coal, machinery, chemicals and automobiles, no longer are obtainable because of the curtailment of their production. One solution made is that countries concerned follow the lead of India, Canada and South Africa by redeeming their outstanding sterling debts out of surplus sterling credits accumulating in London. At the present time the British Government is considering this proposal and others offered to solve post-war trade problems. It is foreseen that the restoration of the exportation and the importation of goods on a pre-war basis will be one of the most complex questions to be faced in the near future.

#### COAL

As an illustration of one commodity which, customarily, has supplied Britain with valuable foreign exchange, as well as with energy for factories and heat and light for homes, the various ramifications of the coal problem will be considered.

In 1937, when industrial production in Britain was at a level approximating that of 1929, the quantity of coal available for home consumption was estimated at 182,000,000 tons. It was believed that this consumption could not be reduced below this level, and that markets would have to be found for the exportation of coal if the increase of 20,000,000 tons, anticipated for 1940, were to be sold abroad. Total coal requirements for home use were estimated at 260,000,000 per year.<sup>5</sup>

Various methods were considered to increase the output of



coal without sinking too many costly pitheads and without utilizing too many miners. It was suggested, for example, that production could be increased by maintaining outputs at winter levels during summer months, by reducing vacations of miners, and by increasing working hours. An even level of production would secure stocks for emergencies, such as during the breakdowns in transportation facilities which had occurred during January and February 1940. But storage facilities were so limited that this plan proved unsatisfactory. A Coal Council, therefore, was appointed to attack the problem of increasing production and utilizing coal supplies for home and export purposes.

Coal marketing machinery, already in existence, was used to control supplies, distribution and pithead prices, and a system of priorities, supplemented by a rationing scheme, was set up. Finally, the Government tightened its control of distribution as the Mines Department, through its local coal officers, began the direction of the flow of coal from pithead to consumer. The Central Council of Colliery Owners agreed not to raise the general level of pithead prices during the war except after consultation with, and subject to the consent of, the Mines Department. Wholesale and retail prices of coal were stabilized at pre-war levels, subject to adjustments required by higher pithead prices and distribution costs. Pithead prices, at the inception of war, increased by 16-18% but they have remained fairly stable after this initial rise.

The unsatisfactory position of coal supplies, the stoppage of several cargoes intended for overseas distribution, and the withdrawal of certain export licenses further complicated the coal problem. Exports of coal now are permitted only after home requirements have received satisfaction. Exports, by June 1941, were only a small portion of the 50,000,000 tons exported in the last pre-war year. Coal production during the year 1941 was 25,000,000 tons short of the 200,000,000 tons set for the year, partly caused by the fact that 75,000 miners left the pits during the year for military service or for other employment. Less than one-tenth of this number was replaced by drafted labor and the Army did not release coal miners from its ranks.

The problem of producing coal for home consumption and for

the export market led to the classification, on April 1, 1941, of house coal into four standard grades. From June 1 onward workers were not allowed to leave a scheduled colliery without permission of the Ministry of Labor. It was urged, in various quarters, that coal should be rationed to prevent private hoarding, that the output of coal should be augmented by the introduction of a large number of workers, that the output per head of the present labor force should be increased, and that outputs should be segregated in the most efficient mines by carrying forward the concentration of industries plan.<sup>6</sup>

By October, 1941 a coal distribution scheme was in operation under which an ordinary consumer could not obtain more than one ton of coal per month. All consumers were asked to heat only one room during winter months.

Although figures concerning the export of coal are no longer published it is no secret that export orders cannot be filled.<sup>7</sup> In spite of the fact that, by November 1941, stocks of coal were between two and three million tons larger than in 1940, there was little coal to be exported. Only by stringent control of home consumption could sufficient coal be secured, and the danger existed that consumption would surpass output unless rigid economy was practiced. Coal production at the present time is about 23,000,000 tons per year and the country is consuming about that amount. The problem of producing the supply of, and curtailing the consumption of, this commodity remained a largely unsolved problem. Although the situation became so critical in 1941 that an appeal was made for the voluntary return of 50,000 former miners from industrial employment but only 30,000 returned. The Select Committee on National Expenditure declared in March 1941 that the minimum manpower required in the mines had not been attained. It suggested the temporary release of miners from the Army for building up stocks, the thorough combing-out of general industry, the improvement of local transportation and canteen services for miners, the publicity of miners' income tax deductions, and the improvement in miners' machinery and wages. It stressed the good relations created in many areas between mine owners and operators since the war

began and declared that both parties were united in the desire to attain maximum outputs.

Of all the industries that have been changed by the concentration of productive resources upon the war that of coal has suffered the most for, although miners are more prosperous than they have been in recent years, insufficient quantities of coal are being mined. The mining industry has been complicated, during the war also, by the lack of timber supports, usually obtained from Norway, the problems of transportation and distribution and, most of all, and continuously, by the shortage of skilled labor. In September 1939 76,400 miners were employed in the mines while, by April 1942, the total stood at 65,000 with a drop of 14% in skilled hewers on whose services output so greatly depended. It was declared at the latter date that the country needed 208,000,000 tons for its domestic use yearly.

To trace the difficulties that have applied to the coal situation the first winter of the war must be examined. At that time large exports of coal to France, the Mediterranean countries and Scandinavia created shortages at home although the output then was nearly 265,000,000 tons yearly. After the fall of France production goals were scaled down to 200,000,000 tons. This move released thousands of mines for the Army and for war industries. The second winter proved the cut in production was too large, and by the Spring of 1941 the production schedule was revised to 225,000,000 tons but it was never realized because of shortage of labor.

Early in 1942 the Government decided to make a thorough survey of the coal problem and to guarantee domestic supplies as well as shipments to Russia by increasing production to 228,000,000 tons and limiting home consumption. It started a strict rationing plan which would reduce domestic consumption to 208,000,000 tons during 1942 with the accumulation of a reserve of 20,000,000 by the Fall of this year. The proposed cut in home consumption of 10,000,000 tons, however, requires extensive administrative control, and it does not promise adequate supplies for war production at home.

In April 1942 the labor force in the coal mines was insufficient

to produce the tonnage required, namely 228,000,000 tons. When the output equalled this figure, in 1938, there were 781,672 men in the mines while now there are only 700,000. Although the number of shifts now worked exceeds that of 1938 the shortage of workers cannot be compensated for by the length of the working day. Recently the Army released some miners from the services for underground work. The number returned was not stated as the release plan required each individual coal mine to apply for each miner separately and it prevented drafting released miners into the most profitable pits. With each month the coal problem has assumed larger proportions until a debate was called in Parliament to discuss the questions and solutions offered.

During the debate, held in May 1942, it was evident that rationing of fuel alone would not solve the coal problem which remained one of production. This rationing, it was granted, would save 10,000,000 tons annually but the 1942 coal production of 300,000 tons weekly is 15,000,000 tons below the maximum desired. The Government was called upon to reorganize the coal industry, improve working conditions in mines, adopt a plan to close unproductive pits, and transfer all available miners to the most profitable mines. In June the coal industry was taken over by the Government, mining was included among the priority industries that can be chosen in preference to military service, and a Minister of Fuel, Light and Power was appointed who was to be advised by a national board composed of representatives of workers, owners, managers and consumers.

Under the recently adopted plan no more miners can be withdrawn from the fighting services and the Minister is responsible for the control of mines and the allocation of coal. He is assisted by a controller general and a number of regional controllers who direct production. Management remains with the pit managers who continue to serve the owners although they may be removed by the Government. A rationing plan was drawn up under which the basic personal allotment was 750 pounds a year, entailing the sacrifice of 75% of all citizens. The cost to the Government of acquiring ownership of 100,000,000,000 tons of underground coal was £66,450,000. A national minimum wage of £4 3s. for underground work, and £3 18s for surface work was established

as of July 10, and this increase did not become the cost of owners but was passed on to consumers in the form of higher prices. In addition, there was a flat grant of 2s 6d for all workers over 21 years of age. It has been estimated that the wage increase will amount to £23,500,000 yearly and the bonus is an addition to this figure. The Government has declared there will be no coal subsidy and an adjustment will be made in the cost of living so that the new coal prices will not upset the balance of the internal economy.

By September 1942 it was apparent that the Government would have to state why a plan to ration coal had not been feasible.<sup>8</sup> Possibly the answer was that there were insufficient supplies of coal to meet the coupons of any scheme which would be accepted by citizens. The coal problem was composed of three aspects: the production of this valuable commodity by miners, its distribution to an ever-expanding number of war factories and small homes, and the control of all consumers.

It was expected that 217,006,400 tons of coal will be produced during 1942-3, the lowest yield since 1933. Production has fallen off at the rate of 13,000,000 tons a year and the Government has considered various plans to increase output. One was for it to pay a bonus to miners for each 1% over the official standard total of 217,006,400 tons, with the bonus to be paid by districts instead of by individuals. Another plan made a small increase in wages to encourage miners back to the pits. The lack of goodwill between mine owners and workers has hampered a satisfactory solution of the coal problem. More than half of the nation's miners are over 50 years of age and nearly 25,000 leave the industry every year because of ill health. Because of the large number of employment possibilities the Ministry of Labor has been unable to encourage many young men to enter the mining field. From January to September 1942 18,957 men were released from the services and industry for work in mines but the weekly coal output per worker fell from 14.73 tons in 1939 to 14.48 tons in 1942. Distribution difficulties, also, have appeared and wastage of coal continues. Export commitments have to be met to Russia and other United Nations, and the supply of coal must be controlled in a manner which guarantees that neither industrial

users, customarily consuming three-fifths of the nation's coal output, nor consumers suffer.

The Report on Coal, presented by the President of the Board of Trade to Parliament in June 1942, contained the following proposals:

1. The Government to take full control over the operation of all coal mines and the allocation of the coal raised, and the responsible Minister to exercise this control with a view to ensuring maximum production for wartime needs.
2. A National Coal Board to be established.
3. A Controller to be appointed in each region, to whom will be delegated the Minister's powers to control colliery undertakings and give directions to the management; these Regional Controllers, advised and assisted by Regional Coal Boards, to have full responsibility for the conduct of mining operations in their regions.
4. Coal mining to be added to the list of priority industries which may be chosen in preference to military service.
5. Steps to improve the conditions for the recruitment of juveniles to be further considered as soon as the Report of the Forster Committee is available.
6. A Medical Consultative Service for the mines to be established.
7. No more ex-miners to be withdrawn, at this stage of the war, from the armed forces for work in the mines.
8. Pit Production Committees to assist pit managers to secure maximum output, but to be relieved of all responsibility for dealing with individual cases of absenteeism.
9. Absentees in future to be dealt with by Regional Investigation Officers appointed by the Minister, this Officer to have the power to recommend prosecution, which will then be the responsibility of the National Service Officer.
10. The National Coal Board not to be concerned with wage questions, but a system to be developed for dealing, on a national basis and by a properly constituted national body, with questions of wages and conditions in the mining industry; the Government to discuss this with both sides of the industry.
11. Any other questions of detail connected with these proposals, which either side of the industry may wish to raise, to be further examined by the Government.
12. Industry consumption of coal to be reduced through

- a. Improved methods of fuel consumption, and
  - b. An organized system of allocating coal to industry.
13. All necessary administrative preparations to be made for the rationing of domestic fuel at short notice in accordance with the scheme set out in the Annex, but rationing not to be imposed immediately, until a further opportunity has been given to increase production and to secure voluntary reduction of consumption through a sustained publicity campaign.
  14. The present system of restriction of deliveries of solid fuel to be maintained; available supplies to be distributed between merchants roughly in accordance with the number of their registered customers, and merchants to be required to keep records of all deliveries so as to enable Local Fuel Overseers to check the quantities supplied to different customers.

#### TRANSPORT SERVICES

Domestic and foreign trade could not have been carried to a successful conclusion without adequate transportation facilities. The superabundance of such facilities in Britain before the war has proved of great value during progress of events. Although the number of steam locomotives declined from 23,368 in 1929 to 19,646 in 1938 the hauling power per engine increased, and while the number of railway goods wagons decreased from 686,047 to 649,984, for the same dates, their carrying capacity rose from 7,658,000 to 7,808,000 tons. During this period the fleet of gasoline-propelled goods vehicles increased from 339,000 to 495,000 with a large rise, also, in their carrying capacity. At the first date 20,309,000 tons of merchant shipping arrived at ports and departures amounted to 21,000,000 tons, while at the latter date arrivals totaled 23,900,000 tons and departures 25,100,000 tons.

The whole transport system possessed such flexibility that a breakdown in coastal shipping could be remedied by moving more goods by rail, road, or canal, and a breakdown in railway services could be met by transporting materials by road. To secure maximum utilization of capacity and swift interchange of modes of transportation the Government appointed a Railway Executive Committee which was responsible to the Minister of Transport. Coastal shipping was requisitioned although actual management remained in the control of the shipping companies. Trucks were

hired for the conveyance of Government traffic and a committee was set up to offer advice on the extension of traffic by canal. In this manner efficient centralized control of transport facilities was obtained, and through it, in combination with the substantial margin of reserve carrying capacity, there was no hold-up in the conveyance of vital materials and commodities throughout the nation.

A survey of the wartime transportation system includes the following controls:

1. The Railway Executive Committee, composed of general managers of five major railway companies and an independent chairman, serves as agent of the Ministry of War Transport in the organization of the nation's railways. In general, there is an inter-company freight rolling stock control concerned with issuing instructions as to the use of freight cars and the charges to be made for retaining freight cars over one day. The Transport Priority Committee of the Ministry administers priorities for essential traffic. Light loads have been amalgamated and duplication of services has been curtailed by a system of nominated loading. Passenger traffic has been reduced 30% and all services eliminated.
2. The Minister of War Transport appointed Regional Transport Commissioners who in turn appointed District Traffic Officers. Wartime control is based on a system of grouping operators through the measure of fuel rationing, as without a plan for grouping no fuel is furnished. Direct control is imposed through the organization of a Haulers' National Traffic Pool which allocates all Government traffic, through the outright charter of 2,500 vehicles, and through the organization of Defense Lines for use in an emergency. Private travel has been curtailed by gas and tire rationing and bus service through licenses and rationing.
3. All air transport has been placed under the control of the Royal Air Force.
4. A daily meeting in the Ministry of War Transport of all its departments and Ministries interested select ports for unloading of incoming ships. Instructions to ships are sent by the Admiralty and Port Emergency Committees have executive authority over all port facilities.
5. Canals have been organized into Regional Canal Committees



with central control as to policy matters emanating from London. Regional Committees serve in an executive capacity and control all traffic allotted to canals.

6. The Ministry of War Transport has control of all charges made by rail, road or canal.
7. The transport load, as far as possible, has been rationalized and interzone traffic has been eliminated by requiring producers to obtain materials within specified zones.
8. The Ministry of Supply serves in a complementary position to the Ministry of War Transport by aiding the latter's officers in the details of traffic control. The former's Departmental Transport Organization is of importance in making advance plans for the transport of raw materials, factory products, and factory traffic including workers.
9. Control over transport charges is exercised by the Minister of War Transport. This official authorizes increases in charges beyond limitations imposed by or under statute, and prevents excessive increases in charges. This control is part of the Government's general policy of price stabilization to prevent inflation and limits have been set beyond which transport charges cannot increase. At the present time railway charges are stabilized at a general level  $16\frac{2}{3}\%$  above their pre-war level. All charges of dock, canal, tram and trolley companies are subject to statutory maximum limits, increases are controlled, and all changes must be brought to the attention of the Minister. Fares on road motor transport are fixed by licenses and any changes must be made through the Regional Transport Commissioners. Charges for road motor haulage and hire have been brought under an Order providing that charges shall not be more than  $7\frac{1}{2}\%$  above the charges in October 1940.
10. All unnecessary transport facilities have been eliminated and statements have been made relative to the loads which can be carried. For example, relative to bricks, railways have been informed not to accept them for conveyance for distances in excess of 75 miles unless Area Transport Officers of the Ministry of Supply have issued special permits. A permit is issued only when supplies cannot be obtained within the 75 mile area. As for coal, railways must carry larger tonnages to inland destinations than before the war, and in some instances it is hauled partly by rail and partly by sea to save the rail transport.

## RAILWAYS

In September 1939 the railways in Britain were taken over by the Government. In February of the next year a Government compensation scheme was set up for these transport facilities which was based upon a guarantee of yearly net revenues equivalent to the average for the years 1935, 1936 and 1937, with provision made for the companies to share with the Treasury any profits in excess of the agreed amount.<sup>9</sup> A receipts and expenditures pool was started in which the London Passenger Transport Board participated with mainline companies. Profits from the pool were allocated to the five railway companies on a fixed percentage basis and provision was made for handling any surplus profits in excess of standard revenues laid down by the Railways Act of 1921. This was considered to be an equitable approach to the problem of the railways in wartime.

In October 1941 the second wartime increase in charges was announced by the Ministry of Transport. Some consideration, however, was given to season ticket holders, to users of workmen's tickets, and to passengers of the London Transport Board. Much difficulty had been occasioned by the Treasury plan of a guaranteed net revenue for the railway pool, the reimbursement of additional working costs by increased passenger charges, and the sharing by the Treasury of revenues between a minimum and a maximum sufficient to permit the controlled companies to receive their standard revenue. It was apparent that by increasing the cost of transportation, to that date of 16 $\frac{2}{3}$ %, the cost of raw materials, manufactured goods and, indirectly, the sales prices of commodities to citizens and to the Government was raised.<sup>10</sup>

Some critics of the transportation situation urged that, because of past and future rises in costs, a subsidy might provide a more equitable approach to the problem than the Government pool in operation.<sup>11</sup> The railways countered this objection by the statement that they were operating their facilities at full speed and on a twenty-four hour day with reduced staffs, and that they were playing an important part in the transportation of merchandise, troops and evacuees in the midst of bombardments.

The Government set up a committee to consider the transpor-

tation situation. The report rendered indicated that efforts to coordinate various competing services and to utilize them in the national interest had not been successful. The Ministry of Transport, in its opinion, had not offered sufficient directive force to companies and had not viewed the transportation problem as a whole. Traffic arteries, it stated, frequently were so clogged that a steady stream of raw materials into, and manufactured goods out of, factories could not be maintained. It felt it imperative that all forms of transport be coordinated and that all trades which serviced carrying capacity, such as stevedoring, warehousing, and transferrers of goods should be brought into the national transportation plan. The Committee's proposals, representing the views of its sixteen representatives of railways, roads, canals and coastal shippers, were rejected as too far-reaching to be placed in operation during the war. Suggestions made by the Road Goods Transport Special Emergency Committee that road transport be made part of a coordinated plan covering all four forms of internal transport, also, were rejected.

In April 1941 a War Transport Council was appointed by the Minister of Transport to undertake the important task of coordinating all forms of transportation. A common scheme was to be worked out in which rail, road and canal would each receive a proper place and be operated in relation to each other.<sup>12</sup> The Government stated that it had not been feasible to coordinate facilities before this date as it had been necessary, first, to strengthen and reorganize each section of the transportation system.

The following month transport and shipping facilities were merged in a single Ministry under F. J. Leathers.<sup>13</sup> In August the Government announced a new financial agreement with main line companies and the London Passenger Transport Board. This agreement, which operated from January 1, 1941 until one year after cessation of hostilities, provided for a fixed annual payment by the Government of £43,000,000 exclusive of certain interest charges and the net revenue from road and other investments.<sup>14</sup> The payment approximated stage two of the old agreement at which stage the pool income, including non-controlled net revenues, amounted to £44,600,000. War damages, sustained by the

railways, were from the commencement of this control to be dealt with under the scheme introduced by the Government for all public utilities. Under it they were asked to pay 50% of all damages suffered in lieu of the existing arrangement whereby the cost of restoring war damage in any year was chargeable to the pool up to an amount of £10,000,000. The plan was criticized because it did not encourage managements to pursue efficient methods or to resist rises in the cost of materials and wages.

In the White Paper, issued by the Government in September 1941, clarification of many points in the revised agreement with the railways was secured. It revealed that war damage suffered by roads since the outbreak of hostilities were to be dealt with under the new scheme to be introduced for public utilities according to which the Government would meet 50% of such costs. The other 50% would fall on the railways and would not be charged as revenue expenditure. No clarification, however, was offered as to the coordination of the various forms of transport or as to the relationship of transportation companies to the State. The agreement was viewed as a compromise between private and State ownership. It was aimed at preventing further increases in railway rates and an upward trend in prices but it did not reveal how rises in costs of materials and labor were to be met in the future.

At the present time troop trains, coal munitions and other war materials composed 60% of all railway traffic and for it the Government pays on the basis of reduced rates. In addition it pays the railway companies £43,000,000 annually, already described, which they use to meet deficits and to provide dividends for shareholders. To secure the best operation of the 50,000 miles of railways their use is now under the Ministry of War Transport, with the actual operation of the main roads and the London Transport Board placed under the management of the Railway Executive Committee. This Committee was composed of the general managers of the four railway companies and the vice-chairman of the London Passenger Transport Board, and it has achieved an appreciable degree of coordination between the various aspects of the entire system.

Unnecessary traffic has been curtailed by the Government and

today sleeping accommodations can be secured only by Government priority. Trains no longer carry dining cars and on many routes only third-class coaches are operated. Two or three times as many goods are now transported than before the war and, considering the movement of troop trains, many more passengers are carried than in the pre-war period. This work has imposed heavy strain upon railway equipment and personnel but many methods of pooling equipment have been devised by the companies to prevent shortage of cars. A Commission was appointed in January 1942 by the Railway Companies' Association to consider the planning and reconstruction of railways after the war.<sup>15</sup> It is apparent that the rebuilding of railways and their equipment will offer a large area of employment during the post-war period and that this development should occur with reference to the nation as a whole and to the other transport facilities in operation.

From September 1, 1939, when the Minister of Transport assumed control of the four main line railway companies, the London Passenger Transport Board and minor railway undertakings were considered a part of the general set-up. The Railway Executive Committee, composed of the general managers of the five companies and an independent chairman, acting under the general direction of the Minister, directed and coordinated the work of the railways and organized the country into Districts, each under a District Goods Officer. The various Supply Departments, in turn, appointed Movement Officers throughout the country to control their imperative rail traffic and to cooperate with Railway Liaison Officers, appointed by the Railway Executive Committee. In addition, the three military services appointed Military Railway Traffic Officers who were located at all stations where military traffic was heavy. These Officers served as a means of communication between the Services and railway officials, while the Liaison Officers informed District Officers on the requirements of Government traffic users.

Army movements and evacuation of civilians were planned well in advance of requirements but major movements were planned by the War Department and reported to the Ministry of War Transport for the issue of instructions. Such movements were defined as those requiring more than two trains while minor

movements were routed to the railways direct by local military officers without access to the District Command.

Approximately fifty percent of freight cars in use were owned privately by collieries and industrial companies and it was necessary that they be requisitioned for common use. To distribute cars on an equitable basis the Railway Executive Committee, in March 1941, organized an Inter-Company Wagon Control Organization with the task of allocating freight rolling stock as well as requisitioning it from its owners. Exempted from this demand were limited numbers of cars controlled by various Government Ministries. This control was staffed by experienced freight car distributors and was supervised by an Inter-Company Freight Rolling Stock Committee responsible to the operating committee of the Railway Executive Committee. A definite attempt was made to conserve the use of freight cars. Railway companies developed nominated loadings and were forced to amalgamate less-than-carload lots. At places serviced by more than one railway traffic could only be sent over certain routes to certain areas on specified days of the week and by one company's route, with a provision that there be sufficient traffic to warrant through loadings. District Officers examine loadings at common points where several company's routes converge and at other points they amalgamate loads in a manner that secures the conveyance of traffic by the route of one company. All schemes for carrying freight arrived at by the various railway companies must be brought to the attention of traders who use the facilities of the roads and to that of Chambers of Commerce and other interested organizations.

#### ROAD TRANSPORTATION

The nation's 500,000 motor trucks and 50,000 public service vehicles were organized into a hypothetical plan before war was declared. Under this plan the Minister of Transport, later titled the Minister of War Transport, was at its head and he was aided by an advisory committee composed of representatives from the road operators, railways and labor. Regional Transport Commissioners were appointed by the Minister to serve in the various traffic areas, and they appointed District Traffic Officers to con-

trol the districts within the areas. Traffic sub-districts, also, were set up under managers who, in the early part of the war, rationed fuel and later carried out the detail of the Ministry.

Before hostilities, the 200,000 operators of trucks had been organized into groups of from 25-100 vehicles of the same class and operating in the same locality. Each of these groups elected a Group Organizer and registered their organization with the Regional Transport Commissioner. The first check on motor transport took the form of fuel rationing with three licenses issued to commercial vehicles: A to vehicles doing work for general hire; B to vehicles used for work by the owner and by him for general hire; C to individuals who can do work solely connected with their business. Vehicles were requisitioned with the consent of the Regional Transport Commissioner and all vehicles used were registered.

All public service vehicles, such as buses, were controlled by the Commissioner through rationing of fuel and by a system of permits. As the services of these vehicles were standardized it was found unnecessary to group their operators. Fuel rationing was based on the year ending December 31, 1938 relative to fuel consumption and mileage, and was operated directly between the owner and the Regional Commissioner. By the issue of special war permits the Commissioner could change the regular routes of the vehicles to suit demands necessitated by shifts in war populations. The Road Haulage Scheme, adopted during the middle of 1941, was aimed at providing a fleet of vehicles under continuous Government control, arranging a large part of the long distance road movement of Government traffic, and it was necessitated by the fact that the previous procedures to handle traffic had proved inadequate in the face of the national emergency.<sup>16</sup>

After this plan was adopted a Road Haulage Branch was established to divide the country into six Divisions and into fourteen Sub-divisions. The Branch controlled a fleet of 2,500 chartered vehicles and, in addition, 1,600 more chartered for the transport of meat. Area Offices served as clearing houses for all Government traffic and controlled all chartered vehicles, even those used on a temporary basis. These vehicles were hired at rates which included a standard payment per week and an amount per mile.

In addition, the Hauliers' National Pool, an organization of hauliers, distributed the traffic allotted to it by the Minister and not carried by chartered vehicles. This organization was managed by an unpaid committee of operators and a paid manager and staff, with all administrative costs reimbursed by the Minister. Also, there were Defense Lines set up to assure that in time of extreme emergency there was a substantial vehicle pool available. All these plans were operated on a voluntary basis with rates determined by the Minister after consultation with local committees of the industry. Contracts for the transport of goods ran between the Minister and the operator, and the Hauliers' National Pool served only as agents for the Minister.

New vehicles were allocated by a system of licensing with the applicant required to prove he must obtain the new vehicle in the national interest. Original allotments, secured in 1940, were only 10% of the total output but this was later raised to 20%. Fuel rationing was the main restriction on private motoring with a ration of six gallons a month permitted. Since December 1941, however, rationing of tires became very strict through an Order forbidding the sale of tires to any individual except those on Government business and later, in April 1942, sales were forbidden to all except holders of essential gasoline ration cards. On July 1, 1942 all private pleasure driving ceased and the Government requisitioned tires from all cars stored.

#### DOCKS

From September 1939 daily meetings were held between the Ministry of War Transport and representatives of all Government Departments concerned with ships and their cargoes. Information was furnished as to the condition of ports and ports were chosen for the use of vessels in advance of their arrival, after consideration of enemy action, supply position, availability of labor, convenience of inland transportation, and future sailings of ships.

After the daily meeting the Admiralty instructed ships and other Departments took action to secure the rapid handling of cargoes at the ports nominated. Ordinarily the Departments concerned included the Admiralty, through which instructions to ships at sea were sent; the Ministries of Food and Supply, as prin-



cial importers; the War Office and Air Ministry, as importers and exporters of war stores and aircraft; Customs, as revenue agents; the Home Office, for purposes of immigration and emigration; and the Ministry of Labor, for allocation and transfer of dock workers.

At each of the 47 principal ports a Port Emergency Committee coordinated the work of the various Ministries and Departments in the daily operation of these ports. The Committees were composed of representatives of the port authority, shipowners, traders, road, rail and canal transport, coastwise shipping and labor, and they were responsible to the Ministry of War Transport. Greater control has been achieved, during the progress of the war, over ships and over imports to the point where full information about the cargoes of all ships are furnished well in advance with instructions as to the destinations to which cargoes are to be consigned.

To ascertain that no congestion of traffic occurs arrangements are made at Liverpool and at other ports to provide that goods are not sent forward until ships are ready to take them. Outward traffic of the Service Departments are provided for by special arrangements that permitted direct loading. The best method of maintaining the clearance of ports has been secured from headquarters with the statement of the total burden which each port is to bear and the permission afforded the Port Emergency Committee to determine the local arrangements to handle it.

#### CANALS

Canals and inland waterways were composed of two groups, the first covering those taking barges 14 feet wide and carrying loads from 60-150 tons per craft with the barges drawn by horses, self-propelled or worked in strings by tugs; the second those with narrow boat capacity 7 feet wide carrying loads from 20-30 tons per craft, horse-drawn or self-propelled. The first group composed 1,280 miles and the latter 805 miles. All canal and inland navigators, for the war effort, were organized into six regions under the supervision of Regional Canal Committees appointed by the Minister of War Transport and composed of representatives of canals, canal carriers, users of canals, including the Government and

trade unions. A central committee deals with questions of policy and reviews the operations of the industry and acts as an advisory body to the Minister.

#### SHIPPING

All ships on the British and Colonial Registers were requisitioned by the Government during the early weeks of the war.<sup>17</sup> Shipping space was severely rationed, and freight and passenger rates were raised in a number of cases. The Ministry of Shipping proposed a scheme for the sale of Government-built ships to private companies.<sup>18</sup> For many months it had been urged that the Government make available to companies tonnage built on Government account. This was refused and tonnage was operated on a management basis only.

The efficiency of the shipping services has compensated for the increase in charges and it has provided that trade throughout the world has been maintained. Ships have been used to transport materials and foodstuffs, the weapons of war and the members of the services to all parts of the world. The value of the convoy system, used exclusively by the British in the Atlantic, in which ships are escorted by destroyers and corvettes, has been proved by the small loss of ships.

Shipping has become a bottleneck in recent months for Britain and the other United Nations. At the end of 1941 the merchant tonnage of the United Nations amounted to about 35,000,000 gross tons. It is estimated that a further 8,500,000 gross tons will be produced during 1942. Although Axis merchant fleets have been set at 12,000,000 tons, with 2,250,000 tons to be produced this year, they cannot be moved in coordination with each other as easily as can the ships of the United Nations, and a deficiency in one area cannot be compensated for by a surplus in another.

In February 1942 a joint Anglo-American Shipping Adjustment Board was organized to pool the services of an estimated 32,000,000 tons of shipping and break the shipping bottleneck. The shortage of ships was delaying the transport of American troops and the promised deliveries to Russia. It was estimated that 20,000,000 tons were owned or controlled by Britain and 12,000,000 tons were under United States registry. The objectives of the Board

included the preparation and maintenance of a full survey of the employment of all tonnage in both the American and British pools, the assurance of economies in the use of shipping by interchange and combined use of resources, and the constant survey of all shipping requirements. Although ships were pooled the movement of British-controlled shipping remained with the Ministry of War Transport while the United States continued to direct the movements of United States-controlled shipping. The function of the Board was "to adjust and concert in one harmonious policy" the work of these two shipping authorities. The members were to confer with representatives of the other United Nations to secure the proper utilization of their joint resources. The necessity for utilization of every inch of cargo space has been stressed in recent months as the output of war material was held up on the docks by serious lack of ships and the submarine campaign in the Atlantic. By May 1942 it was apparent that the operation by Britain and America of their ships would not solve the shipping problem and that the oceans might have to be divided into zones of responsibility and control, one nation having full control in its sphere regardless of the nationality of the United Nations' ships using its waters. In addition there would be a central authority dictating just how much tonnage would be used for various purposes.

In a recent Government White Paper it was stated that control of shipping will probably remain in official hands until at least 18 months after the war. One problem to be considered is the transfer of new ships to private ownership and the control of freighters, as well as, perhaps, some form of international control of freight rates. These questions are not so pressing, however, as those of the present involving the breaking of the bottleneck and the securing of a complete pooling of ships of all the United Nations even at the loss of prestige to the various countries concerned.

#### INSURANCE

The insurance of goods carried throughout Britain and on the high seas has assumed a place of great importance during the war. The Government has entered the insurance field to a larger extent

than during the last war and it has provided the Treasury with a substantial premium income but, at the same time, with large liabilities for losses.

Under the Government insurance plan coverage is provided for all commodities. It has been organized as a Government monopoly and managed by the Board of Trade through insurance companies, brokers and Lloyds. All sellers of goods are required to secure insurance for the full value of their stocks. In addition, the Government insures hulls. Ships are insured with a club of the owner's choice which retains 20% of the risk and reinsures 80% with the Government. The highest permitted value is 125% of the pre-war insurance base. In case of loss of the ship the immediate payment made is 100% of the pre-war value with the remaining 25% earmarked for replacement.

Insurance is provided, also, for cargoes of ships. This is not operated as a Government monopoly but in practice it becomes that as marine underwriters have bound themselves to refuse to accept cargoes which the Government will write at less than 125% of the Government rate.

Under the War Damage Act, which covers buildings, equipment and chattels, insurance of buildings and equipment has become compulsory but that of chattels is voluntary. No claims are paid for losses until after the war. The scheme is of such recent inception that only 20-25% of the total number of ordinary domestic policy holders have taken advantage of its provisions.

Food and supplies, at the present time, are insured under a plan which covers marine and fire risks but no war damage. The Government, which acts as insurer in all other schemes, in this plan is the insured. Merchandise bought by the various Ministries which, normally, would be uninsured now is covered by a special arrangement made by the Government and a group of companies and underwriters. This type of insurance has proved more profitable to the Government than to the insurers.

#### POST-WAR PROBLEMS

During the progress of the war foreign and domestic commerce have become increasingly interrelated and this commerce has depended for successful completion upon the maintenance of trans-

port facilities. Breakdowns, in the lines of communication at home and on the seas, have caused loss and inconvenience and they have, in the long run, seriously retarded the war effort. Overlapping of effort has been expensive, especially in relation to railway and road facilities. It has become apparent that the control of exports and imports, after the war ends, will be of utmost importance, as Britain, for the first time in her history, will be internationally a debtor country. As self-sufficiency of the nation will be stressed in the post-war years all imports will have to be restricted to meeting the greatest requirements and they will have to be made from countries to which exports have been sent. This policy raises questions of currency and exchange control between the United States and Great Britain as one main problem to be faced after the war.

Another problem to be met is the settlement for goods purchased in the United States by Britain after the enactment of the Lease-Lend agreement. By August 1942 the British Empire had purchased in the United States, since the outbreak of war, more than £1,750,000,000 of goods, more than the value of goods exported to Britain. It is recognized that these purchases and the Lease-Lend program in general helped America to develop her defense industries. At the same time this program was of appreciable aid to Britain at the moment her resources in America were running out and the debt owed by Britain to America is everywhere acknowledged throughout Britain. The *London Times* has commented on the settlement of the Lease-Lend purchases in the post-war period as follows:

As to finance in the strict sense—the settlement of financial claims arising from the war—there seems to be complete agreement on the principle, though doubtless there is room for contention over details if there are not sufficient good sense and mutual forbearance to rule it out. The principles have been laid down in two remarkable documents, the Anglo-American Mutual Aid Agreement of last February (1942) and the President's Report to Congress. . . . Britain for her part is devoting an enormous, ever-increasing proportion of her resources to the war and a very large proportion of that production as well as all experience gathered in three years of war on sea and land has been placed unstintingly at the disposal of all her Allies including,

of course, the United States. Lease-Lend has by no means been a one-way traffic and the British part of the war began long before Lease-Lend was thought of. It is thus important that the British Government should have associated itself fully and unreservedly with the principles laid down by the United States.

The total of British Empire cash purchases in the United States from September 1939 to September 1942 amounts to about £1,750,000,000 representing a sum much larger than the total of Lease-Lend deliveries of goods. President Roosevelt has declared relative to Lease-Lend agreements:

These basic Lease-Lend agreements place the problem of the peacetime settlement in a realistic and appropriate setting. The agreements postpone final determination of the Lease-Lend account until "the extent of the defense aid is known and until the progress of events makes clearer the final terms and conditions and benefits which will be in the mutual interests" of the signatory nations, and which will "promote the establishment and maintenance of world peace." Final settlement has been postponed since the course of the war may further change the complexion of the issue. Cooperation among the United Nations is necessary. Article VII of basic agreements pledges that "the terms and conditions" of the final determination of the benefits to be provided by the United States in return for aid furnished under the Act "shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of worldwide economic relations." By this provision we have effectively declared our intention to avoid the political and economic mistakes of international debt experience during the '20s. A Lease-Lend settlement which fulfils this principle will represent the only fair way to distribute the financial costs of war among the United Nations.

A new two-way Lease-Lend agreement was entered into by the United States and Great Britain in September 1942. This agreement reaffirmed the principles of Lease-Lend and announced that reciprocal aid would be provided in such form as to reduce to a minimum the requirements of one Government for the money of the other Government. It represented a marked improvement in mutual aid arrangements between the two nations by reducing exchange payments to a minimum and securing a pooling of re-

sources. By September, also, Lease-Lend had become a "two-way street" as supplies were passing between the United States and Great Britain two ways—both eastward and westward across the Atlantic. There follows a list of some of the goods and services furnished by Britain to the United States under reciprocal Lease-Lend:

1. British corvettes, some officered and manned by British crews and some handled by American crews, are engaged in anti-submarine activities in American waters and in the Caribbean under the U.S. Naval Command. The Admiralty, also, has assigned British destroyers and trawlers for duty in U.S. waters. These are officered and manned by men of the Royal Navy, but are under American command.
2. British ships are used to transport American troops and British convoy protection is supplied for U.S. troop ships.
3. Units of the R.A.F. Coastal Command are participating in anti-submarine work in American waters.
4. Repairs for damaged American warships and merchant ships are undertaken in British ports in the United Kingdom and in all parts of the world. Ships' stores, docking facilities, fuel, water, harbor and dock labor expenses are also provided for the Americans.
5. Spitfires have been turned over to the U.S. Army Air Force. R.A.F. aid is provided in training American flyers to operate British planes and to fly under special conditions of European air warfare.
6. Many R.A.F. airdromes have been turned over to the U.S. forces. Material and building labor for American airdromes in Britain are supplied by the British.
7. Gasoline for U.S. ferry planes is provided by Britain at jungle and desert airdromes.
8. Barrage balloons have been sent from Britain to the U.S. West Coast, and British anti-aircraft guns to the East Coast of the U.S.
9. Specifications of British military inventions and a mass of technical information have been made available to the United States.
10. The equipment and tools of a complete anti-aircraft gun barrel factory and also for a shell factory were sent from Britain for setting up in the U.S.
11. The complete output of a number of British ordnance factories has been assigned to American forces.

12. Spare parts are supplied for the U.S. Army's motor vehicles.
13. British 25 pound guns with ammunition have been supplied to the U.S. Army.
14. Britain has built the cantonments, bases, headquarters and storage facilities for the American forces. This task has engaged 250,000 men, including 28,000 building workers who had to be deferred from the draft in July 1942 to speed up the work.
15. A depot covering 600 acres, with 1,500,000 square feet of floor space, has been turned over to the American forces, complete with its operating staff of 5,000 British personnel. Two other big repair depots are now being built by Britain and are nearly completed.

The foregoing list provides some indication of the material aid given by Britain to America, aid which will continue to be furnished in the future. The proper revival of trade is of utmost importance to Britain, however, as she has to face the post-war settlement of Lease-Lend agreements placed in the United States. As the financial complications which arose in the last war through the placing of British orders in America, by the borrowing of funds and the ensuing foreign exchange complications, have been avoided in this conflict the main problem for the post-war period appears that of reviving trade between the United States and Great Britain, and carrying out satisfactory currency and exchange control arrangements that will lead to stability of finance in both nations.



## CHAPTER X

### TRANSFORMATION OF THE SOCIAL STRUCTURE

Burke once remarked that war never leaves a nation where it finds it. This statement has received current and practical application during the war for, in Britain, traditions of hundreds of years' standing have tottered under the constant pressure of the most expensive conflict in history.

Many drastic modifications have been made in the nation's way of life, changes which have filtered down through all sections of society and which will continue into the years following the making of peace. It is axiomatic to state that as the resources of the nation have been diverted to war purposes this change has been reflected in the social structure of the country. Great care has been exercised by the Government to prevent the war exercising permanent damage to the lives, diets and incomes of lower-income groups but it could not prevent many changes, some drastic, some subtle, from transpiring as the war economy exerted greater pressure upon civilian populations. As it has wished to avoid the injustices that occurred during the last war it has expanded the social services to cope with the many problems emanating from the present struggle.

Upon civilians, rather than upon the military forces, has greater dependence been placed for sustaining the morale of the nation than in any previous war, and upon them the hatred of the enemy has been hurled. One home out of every five has been destroyed or damaged in air raids over Britain, and more than 44,000 civilians have been killed and more than 50,000 injured. Out of the bombing of the East End of London and similar areas of other industrial cities have come pressing problems of furnishing civilians with supplies of food and clothing, shelter, and medical

treatment. After consideration of the conditions revealed by these bombings Britons have expressed their desire to assure a better future to all citizens at the conclusion of the war. This approach, essentially, is social and it indicates that momentous changes have taken place in British thinking during the progress of the war.<sup>1</sup>

Out of consideration of air raid damage to civilians has come the compensation scheme for all citizens fifteen years of age and over.<sup>2</sup> Compensation originally was provided for loss of earning power or for injury sustained while on duty with civilian defense forces. Later, however, it was enlarged to cover any citizen who did not possess earning power. The distinction between the two kinds of compensation, that is, injury allowances and pensions, has been maintained throughout the war and both are payable at a lower rate to those individuals who have not suffered actual loss of earnings. But injury allowances for civilian defense volunteers and workers have been raised to the maximum payable under the Workmen's Compensation Acts, and a special flat rate of temporary allowances and funeral grants have been made available to widows. This measure was a valuable addition to the body of legislation aimed at discounting the material damage of the war to the individual, and it has served to emphasize the fact that all citizens were soldiers in the war.

#### CIVILIAN DEFENSE

A Home Guard of over 1,700,000 men was formed during the early months of the war, and a strong civilian defense force was set up of which about 90% was composed of volunteers. By the Spring of 1941 about 4,000,000 people were engaged in some kind of civilian defense work. About one-half of this number served as domestic fire watchers. The greatest change which has occurred in the organization of civil defense has been the formation of the National Fire Service. The Fire Brigades maintained by local authorities and the wartime Auxiliary Fire Service have been amalgamated into one national service, under this change, and placed under the Minister of Home Security. By this move about 1,400 small fire brigades have been combined into thirty-nine regional fire organizations. A large expansion in equipment has

been secured, gas masks have been issued to all citizens and steel helmets to the forces and civil defense workers.

The civilian defense services now are concerned with three functions: the enforcement of a rigorous blackout, the evacuation of women and children from vulnerable to relatively safe areas, and the organization of Air Raid Precautions including fire, first aid, rescue and demolition, gas decontamination and police services. Over a million persons throughout the nation have been trained for special duties during air raids. This personnel consists of a first-line of paid, wholtime officials, including the air raid wardens, as well as a second-line reserve of unpaid volunteers who can be summoned to work at short notice. Britain has been divided into 13 war areas, each with a Regional Commissioner and staff, and a network of communications connects the London headquarters with the surrounding areas.

The Air Raid Precautions Department of the Home Office was set up as early as 1935, but it was reorganized under the A.R.P. Bill of 1937 and the Civil Defense Act of 1939. The former measure required local authorities to prepare and submit A.R.P. schemes to the Home Office; to buy land, by forced purchase if necessary, for A.R.P. purposes; and it stated the Government's obligation to make grants to help meet the local authority's expenses in this connection. The responsibility for ensuring that adequate protection was given to civilians was placed entirely on the shoulders of the local authority. The Government, for its part, undertook to set up an air raid warning scheme; to make general arrangements for lighting restrictions; to accumulate stocks of respirators and clothing for A.R.P. workers; to provide shelters, blankets and equipment for decontamination and rescue squads and stores for first-aid posts; to coordinate demands for equipment and stores; to train instructors in anti-gas measures; to offer technical and administrative advice to local authorities, employees and members of the public on bomb damage, gas precautions and protection of buildings; and to provide all fire fighting apparatus in excess of normal peacetime requirements.

Local authorities bore the responsibility for providing first-aid and hospital treatment of casualties; for organizing rescue parties;

for setting up emergency communication systems; for maintaining public services under emergency conditions; for arranging for the demolition of bombed buildings; for making road repairs and removing debris; for recruiting volunteers; for augmenting police and fire services; for arranging for street lighting; and for instructing the public in anti-gas and air raid precautions.

Under the Civil Defense Act of 1939 the erection of public shelters, A.R.P. services in industrial plants, offices and factories, and the protection of employees in industry were considered. By April 1942 labor had become so scarce for use in war factories that 80,000 full-time air raid workers were released to industry. At that time about 250,000 individuals were engaged in civil defense work. Defense regulations were amended so that all individuals released for the war industries were under obligation to return to full-time defense jobs at any time in the future and to perform part-time duties of that nature if required. The original conception of defense as a voluntary or part-time service was to remain for the number of full-time workers was reduced in following months. In April, also under new regulations, Regional Commissioners, upon the demand of military authorities, could declare a civil defense region or any part of it to be an operational area if it were necessary to use the labor in it to strengthen the defenses of that section. When such a declaration is made the Minister of Labor may order any individual in the zone to perform specified services or to report for orders to the three fighting services. The penalty for disobedience was placed at ten years' imprisonment and a £500 fine. Services will be paid for at the prevailing rates for civilian labor in that area and those injured will be compensated under the Workmen's Compensation or the Civilians' Personal Injuries Plan. Members of the armed forces, of the police forces, full-time members of the civil defense units, of the Fire Service Observer Corps and of the Women's Auxiliary Service were exempted, and no person pressed into service could be forced to carry out combatant duties.

#### EVACUATION

The Government announced in 1935 that it felt dispersal of the population was a more effective way for the public to receive pro-

tection than through the provision of deep shelters. This policy was carried out by organizing evacuation plans for school children, mothers with children under school age, and institutions for the crippled, blind and aged.

Registration for evacuation was placed on a voluntary basis. Local authorities and schools were made responsible for listing the names of individuals who wished to utilize Government transportation. Arrangements for billets for the evacuees, for their reception and for all work at reception areas was undertaken by the Women's Voluntary Services. Statutory powers were granted local authorities to compel householders to take evacuees should there be insufficient offers of billets. An allowance to cover food for each child taken into households was provided by the Government.

Evacuation occurred during the week immediately preceding the outbreak of war, and it was directed by the Minister of Health and the Board of Education. With the coming of the heavy raids further evacuations were carried out. Schools were used as the places where children to be evacuated were collected. Local authorities were mobilized to assist in receiving evacuees and free medical treatment was provided for children unaccompanied by their parents. Although in the four days from September 1-4, 1939 nearly 1,500,000 persons, mostly children, were moved out of cities by the end of January 1940 nearly 60% of the evacuated mothers and children had returned to their homes and 43% of the school children had returned to classes. To avoid a future movement of population of this nature it was decided that any further evacuation would be undertaken only if raids actually occurred. Parents voluntarily registering their children for evacuation were asked to sign a declaration that once their children had been moved from vulnerable areas they would not be recalled home.

All schools in dangerous areas were closed in September 1939 but in April of the next year they had to be reopened to accommodate the children who had returned to their homes. At that latter date the School Attendance Law came back into force. Nursery centers were set up in reception areas for caring for children between the ages of two and five, and all children under five were provided with a pint of milk for 2d or, free, if their parents' in-

come was below 40s a week. The Government paid 5s a week for each mother, 3s for each child under 14 and 5s for each child over that age if they were evacuated from their homes. Children in grant-aid schools were evacuated with free transportation furnished by the Government; children in private schools were provided with reduced passage abroad with their parents asked to pay £1 per week for their children's upkeep and education.

Forty children's educational camps were established throughout the country, each accommodating 250 children. A child can be maintained in a camp of this nature for 26s a week of which parents pay 6s. These camps have proved a solution to the problems of overcrowded classrooms in areas to which children have been sent, and they provide them with community living, and educational, athletic and scientific training. It has been possible, through the operation of these camps, the conversion of country estates to educational purposes and the re-opening of schools, to keep 82% of the nation's children busily engaged in school matters in the midst of war.

#### SHELTERS

The evacuation of women and children to the country, and the construction of shelters have led to a general lowering of social barriers and the encouragement of lower class problems.

The official policy toward construction of bomb proof shelters was stated in the Home Office Circular of 1935 in which it was announced that the Government would not provide money for their erection as it was believed that shelters would prove impracticable and costly. Local authorities were asked to make surveys for the erection of public shelters and to build a sufficient number to accommodate their citizens. Later it was found that, because of the heavy aerial warfare, steps had to be taken to protect the civilian population against continuous raids. The Government began to adapt subways to shelters; bunks were provided, canteens set up, and first-aid posts organized.

In 1939 the distribution of private shelters was undertaken by the Government. These structures were made of corrugated iron, they were sunk in the earth and covered with layers of protective earth, and each could accommodate eight to ten persons. Shelters

of this type were issued free to low income groups but their acceptance was placed on a voluntary basis. A large number of brick and concrete shelters were erected for tenement residents, and public shelters were dug in many areas. Later a private shelter, which could be set up on the lower floors of a house and which provided protection against falling walls and ceilings, was distributed to low income groups.

The responsibility for the number, type, and construction of shelters remained with the Minister of Home Security but the Minister of Health became concerned with the sanitation, order, bunking, lighting and heating of shelters. The London County Council took over the instruction in shelters and organized film shows, small libraries, and community singing. By September 1942 in London alone accommodations were provided for nearly 5,400,000 persons in shelters composed of 900,000 public shelters, 3,000,000 private shelters, and 1,300,000 domestic, surface and street shelters. In addition, there were large numbers of private shelters in hotels, clubs, and offices.

#### HOUSING PROBLEMS

The damage incident to incessant air raids revealed to the public eye the wretched houses and inconvenient flats that had been used in all industrial areas of Britain. Perhaps the only advantage that came from the enemy's aerial warfare was to clear away some of the tragic slums, to draw attention to ill-planned cities and highways, to point out the need for better Governmental units in towns and villages. One of the most striking changes that emanated from this attack was the redistribution of large sections of the population, and the attending problems of transportation, employment, education, health, and social welfare of these people.

At the present time public assistance services of the towns bombed are responsible for feeding and housing civilians made homeless. After the immediate emergency is over civilians come under the Assistance Board which compensates those with incomes under £400 a year. Free insurance is granted by the Government up to £200 for a single person, £300 for a couple, and £25 for each child. Any person who wishes to insure above that limit (up to a total of £10,000) pays premiums from 1-3%.

Under the War Damage Act insurance is provided for homes and belongings of citizens against bombs, shells and other enemy action with the rate fixed of £1 for every £100 coverage taken.<sup>3</sup> The insurance is handled for the Government through a committee of Lloyd's. A total Government subsidization of housing through loans to provide for new accommodations by local authorities was granted to the extent of £1,661,982 for the year 1940 and £2,101,548 for 1941. Rest centers have been set up to which citizens bombed out of their homes can go for refreshment, sleep, companionship, clothing, advice and relaxation. There are now 18,000 centers in England and Wales for accommodation for 2,100,000 people. If necessary, families remain in these centers for weeks but in most cases they are re-housed within the period of several days. London boroughs, for example, maintain a large number of empty houses for this purpose, each kept in good condition by neighbors, and each ready at all times to receive new occupants. Homes are furnished with furniture, cutlery and crockery loaned by local authorities to bombed-out and evacuated families. The rapid re-settlement of bombed and distressed families has proved to be one of the main methods of maintaining civilian morale in spite of physical and mental suffering.

#### SOCIAL SECURITY

It has become generally recognized, with the development of the war, that the Government must lead the way in any social experimentation and reform which will arise from the nation's extremities more rapidly and more drastically in war than in peace. The various social services have accomplished an excellent piece of work, handling cases involving thousands of homeless citizens, each an individual problem, providing them with new homes, meals and shelters. Economic and social measures, introduced during the war to aid undernourished, bombed and poorly housed citizens, have been enacted in the public interest and many will remain after the war. The solution of pressing social problems has challenged the best minds in Britain and from this challenge has come the development of new aspects of social security.

At the present time, apart from general educational and health services, the chief social services include:



1. National health insurance
2. Pensions
  - a. Widows', orphans' and old age contributory pensions
  - b. Non-contributory pensions
  - c. Supplementary pensions
  - d. Blind persons' pensions
  - e. Seamen's pensions
3. Workmen's compensation
4. Rehabilitation of disabled persons
5. Unemployment insurance
6. Unemployment assistance
7. Welfare services
  - a. Welfare inside factories
  - b. Welfare outside factories
  - c. Seamen's welfare
  - d. Miners' welfare
  - e. Welfare of the unemployed

The national health insurance plan, introduced in 1911, holds the objectives of securing for the insured person any medical attention he may require and of compensating him by money payments for loss of wages when he is compelled to cease work through sickness. The scheme is compulsory with contributions paid equally by employer and employee and with a subsidy furnished by the Government. It applies to all men aged 16-65 and to women 16-60 except those persons in employment which compensates them as part of their service with provisions against illness and those not engaged in manual work who are receiving remuneration exceeding £250 a year and £420 per year from January 1, 1942. Contributions are payable for each calendar year during the whole or part of which the worker is employed but no payment is made during illness or unemployment periods. The present rates of contributions follow:

<i>Class of Employed Person</i>	<i>Employer</i>	<i>Employee</i>	<i>Total</i>
Males 16-65	4½d	4½d	9d
Females 16-60	"	4d	8½d

The benefits include the following:

1. *Medical*—free medical attendance and treatment.
2. *Sickness*—payment during incapacity 18s per week for men, 15s for unmarried women and widows, and 13s for married women. Until 104 payments are made rates are 12s for men and 10s 6d for all women. Benefit begins on the fourth day of incapacity and continues for 26 weeks. No benefit is paid until the person is insured for 26 weeks and paid 26 weekly amounts.
3. *Disablement*—payments during illness—one-half rate of sickness benefit after total sickness benefit exhausted. Lasts as long as incapacity but not entitled to benefit until 104 payments have been made.
4. *Maternity*—single payment of 40s made on confinement of wife of insured man or for insured women but not payable until 42 contributions made. If both man and woman insured double maternity benefit is payable and also double if wife only is insured.
5. *Additional*—increase in cash benefits or payments toward dental and other treatment, but not made unless insured person is member of approved society for about 5 years for cash benefits and 3 years for treatment benefits.

At the present time over 20,000,000 persons are insured under the national health insurance plan.

The old-age pensions plan was introduced in Britain in 1908, it was non-contributory and dependent upon the means test for granting pensions at 70. In 1925 compulsory widows', orphans' and old-age contributory pensions were established, applied to the employed population of the country, and not made dependent upon the means test for granting. At the present time contributory pensions are granted at 65 to both men and women, to wives of insured men, with personal allowances for widows and dependent children of married persons.

Widows', orphans' and old-age insurance is now compulsory for all employed persons aged 16 or over who are insured under the National Insurance Scheme. Contributions are paid jointly with health insurance contributions and in case of health insurance are payable weekly by the employer. Contribution rates for pensions follow:

	<i>Employer</i>	<i>Employee</i>	<i>Total</i>
Men	6½d	6½d	13s 1d
Women	3½d	5d	8½d

Benefits are as follows:

1. Old-age pension of 10s a week from age 65 to death for married man.
2. Old-age pension of 10s per week from age 60 for married woman and wife of insured man who is 65 himself.
3. Widows' pension of 10s for life or until re-marriage of widow of insured man.
4. 5s for 1 child and 3s for other children under 14 or between 14-16 if in school full-time.
5. Orphans' pension 7s 6d per week for each orphan child, of insured married men, widowers and of insured widows, under 14, or under 16 if in school.

In order for a man to receive a pension he must be insured for 5 years with 104 weekly contributions paid, and no payment is made if he is in jail or in a poor institution. Other pensions have been developed for blind persons and for seamen. In addition, there are non-contributory old-age pensions payable to men and women at 70 if they have been British subjects for the past 10 years, and residents in the United Kingdom since age 50, if a British subject, and for the past 20 years, if a naturalized British subject. These pensions are paid if the person does not possess yearly means exceeding £49 17s 6d after taking into consideration the value of investments, earnings and allowances, the property occupied and deductions allowed of £39 per year for a single person or £78 for a married couple for other means than earnings. The calculation of the pension is shown below:

<i>Yearly Means</i>		<i>Weekly Rate of Pension</i>
<i>Exceeding</i>	<i>Not Exceeding</i>	
.....	£26 5s 0d	10s 0d
£26 5s 0d	31 10 0	8 0
31 10 0	36 15 0	6 0
36 15 0	42 0 0	4 0
42 0 0	47 5 0	2 0
47 5 0	49 17 6	1 0
49 17 6	.....	0

Supplementary pensions are payable to persons in receipt of old-age pensions (either contributory or non-contributory) and

to widows 60 years of age who receive pensions under the Contributory Pensions Scheme. The pension of man and wife makes up their income to 31s for one, 33s for both, or 19s 6d for a single person. Claims for extra pensions are filed at the post office and are subject to investigation.

Workmen's compensation makes a provision for injury, from an accident arising out of employment, to the deceased's family. Two classes of injury are covered, accident and health. For the former the injured must prove that he has been out of employment, disabled for more than 3 days and that his inactivity has been caused by his former employment. Persons are excluded from the plan who are not included in manual labor whose remuneration exceeds £350 a year, £420 from January 1, 1942, casual workers, and the police force. The amount of compensation paid for death is £200 or 3 years' earnings whichever is larger up to £300 if dependents are left; for a partially dependent person a reasonable return; if no dependents a maximum of £150 with an allowance of 5s for each child up to 15 years of age. In case of disablement a weekly payment is made as follows:

<i>Amount of Average Weekly Earnings</i>	<i>Total Incapacity Weekly Payment</i>	<i>Partial Incapacity Weekly Payment</i>
50s 0d	25s 0d	50% of the difference between earnings before and after the accident
40s 0d	22s 6d	56% " "
30s 0d	20s 0d	67½% " "
25s 6d	18s 10½d	74% " "

Industrial diseases, also, are compensated for and rehabilitation programs for disabled persons have been developed to a marked degree. Most employers insure their liability for workmen's compensation but this is not obligatory. The rates of benefit paid were increased in August 1940 at an estimated cost of £9,000,000 a year.

Unemployment insurance was introduced in a limited form in 1911 and was extended later to include all classes insured under the National Health Insurance Scheme. It is compulsory and equal payments are made by the employer, the employee and the Government. All individuals between the ages of 14 and 65 are required to be insured under the plan except those in domestic

service, civil servants, holders of exemption certificates, non-manual workers earning over £420 a year, female professional nurses, sailors, soldiers and airmen, teachers and the police. A weekly payment has to be made irrespective of the number of days actually worked. Two schemes, one general and the other agricultural, have been set up. They follow:

<i>Class of Employed Persons</i>	<i>General Scheme</i>				<i>Agricultural Scheme</i>			
	<i>Em- ployer</i>	<i>Em- ployee</i>	<i>State</i>	<i>Total</i>	<i>Em- ployer</i>	<i>Em- ployee</i>	<i>State</i>	<i>Total</i>
Men 21-64	10d	10d	10d	2s 6d	3½d	3½d	3½d	10½d
Women 21-59	9d	9d	9d	2s 3d	3d	3d	3d	9d
Young men 18-20	9d	9d	9d	2s 3d	3d	3d	3d	9d
Young women 18-20	8d	8d	8d	2s 0d	2½d	2½d	2½d	7½d
Boys 16-17	5d	5d	5d	1s 3d	2d	2d	2d	6d
Girls 16-17	4½d	4½d	4½d	1s 1½d	1½d	1½d	1½d	4½d
Boys 14-15	2d	2d	2d	6d	1½d	1½d	1½d	4½d
Girls 14-15	2d	2d	2d	6d	1d	1d	1d	3d

Benefits under the two schemes above are as follows:

20s	18s
18s	15s
16s	15s
14s	12s
9s	7s 6d
7s 6d	6s
6s	5s
5s	4s

For a dependent 10s and 9s are granted, respectively, and for each of the first two dependent children 4s for both plans and for other dependent children 3s for each plan. A waiting period of three days applies to both schemes during which no payment is made. About 16,000,000 persons are now insured under the plan, and rates of benefit have been increased during the war.

Unemployment assistance is granted to unemployed workers to aid them to tide over periods of unemployment. It covers workers aged 16 to 65 and regular weekly payments are made to provide for his and his dependents' maintenance. If he is a householder

for himself and his wife he receives 26s od per week; for the householder-male the payment is 16s; for a woman 16s. For members of the household:

21 or over—man	10s
21 or over—woman	9s
16-20	8s
14-15	6s
11-13	4s 6d
8-10	4s od
5-7	3s 6d
under five	3s od

Allowances are made for rent and additions are made to scale rates. The above discussion, provided in summary form and stating only the main aspects of the various plans, provides some idea of the scope and benefits of the various types of social insurance. Many of the benefits have been enlarged during the war and additional individuals have been brought within the scope of the plans.

#### SOCIAL SERVICES

The social services have played an integral part in the war effort. On them have depended the maintenance of civilian morale and health, and the provision of minimum essentials to every citizen whether during a raid or in the normal wartime routine. In addition, they have aided in mobilizing the nation's manpower and resources.

The Ministry of Labor has allocated men between industries and the armed forces, and it has assumed the protection of the health of workers by providing for the feeding and billeting of war workers. The Ministry of Health, in cooperation with local authorities, has moved women and children from dangerous areas and cared for air raid casualties. The Ministry of Pensions has provided for the needs of individuals injured while on active duty or in other ways through enemy action, and the Assistance Board has given financial assistance to those who have lost their belongings in air raids.

The actual executive work of the social services has fallen to the officers of local authorities, such as County Councils, County Borough Councils and Rural District Councils. Regional coordi-

nation has been secured through the offices of Regional Commissioners who, in case of great emergency, possess the power to act in their areas as the chief executive officer of the Government.

As the war has progressed the British social services have been extended and their benefits enlarged. New services have been developed, new emphases have been laid on old services, and more attention has been devoted to family needs than at any previous time. Protection of the young has become the first duty of the social services during the war, but, in addition, steps have been taken which have gone far toward establishing a national minimum standard of well-being for all. For instance, for the first time in British experience, a minimum wage has been established for all agricultural workers and for workers in plants scheduled under Essential Works Orders. Provision has been made in these and many other industries for welfare inside and outside the factory. The standard rate of benefit under the unemployment insurance plan has been increased and workmen's compensation rates have been broadened and enlarged. Old-age pensions have been supplemented by additional allowances. The range of the national health insurance scheme has been extended, and a plan has been evolved for the compensation of members of the services and civilians killed from war activities.

At the present time, through the development of new social services, one family in four now obtains free or cheap milk under the National Milk Scheme. Costs of evacuation of children, air raid precautions, establishment of social centers, nurseries and hostels, and the burden of relief for air raid victims have all been assumed by the Government. The speed with which the services have attacked problems of destruction has been remarkable. For instance by June 1941, in the London Civil Defense Region, which had suffered destruction of property eight times as great as the rest of the country, more than 90% of the damaged houses had received first-aid repairs. Hostels, built from pre-fabricated parts for agricultural and industrial workers, have been erected at top speed in all parts of the country.

The American Ambassador, John Winant, speaking at a meeting of the National Council of Social Service in the Summer of 1941, expressed the need for social services in Britain and America

and he went on to say: "While we are coordinating military effort we might also be coordinating social effort; and while attempting to preserve life we might also be attempting to develop life." These are the aims of the National Council, aims which have been realized, at least partially, in the midst of war. The voluntary social services, based entirely on local initiative and enterprise, have provided many thousands of men and women with the change of developing their capacity for responsible action as citizens. They have aided the nation in its crisis and will provide the creative energy for the tasks that lie ahead. It is not the war that has made social security essential or desirable but only that the war and the reconstruction that will follow in its wake have afforded a special opportunity for achievement of social security. Among the peace aims this security as well as national health will hold prominent places. Captain Oliver Lyttleton once declared:

Let no one underrate the power of the modern world to recreate its wealth. We must learn, however, how to direct it, how to use it, how to distribute it.

In this distribution of wealth the provision of social security for all citizens will assume greater importance. The recognition, on the part of the Government of the necessity, here and now, for adequate social services is indicated by the following tabulation of expenditures for these services, on an annual basis, in £millions:

Old age, contributory and supplementary pensions	104.6
Unemployment insurance and assistance	31.5
National health insurance	9.1
Education	68.0
Housing subsidies	18.5
	<hr/>
Total	231.7

The tabulation, however, excludes expenditures by local authorities and contributions from the insured as well as the cost of wartime social services, such as allowances for the dependents of men in the fighting services, war pensions, food subsidies and evacuation. The cost of food subsidies, however, from January 1 to March, 1942, including freight and marine war risk insurance,



was at the rate of £127,000,000 per annum, after allowing for £10,000,000 of profits realized on certain commodities. The individual rate of subsidy for the foodstuffs subsidized, in terms of £millions, follows:

Flour, bread, oatmeal and animal feeding stuffs	40
Meat	23
Potatoes	20
Sugar	13
Milk	2
National milk scheme, etc.	18
Eggs	11
Tea	3
Milk products, bacon and ham, carrots, etc.	7

Many experiments in social security have been instituted by the Government; in addition to these steps, however, voluntary organizations have played an even greater part than before the war. Events have indicated that the Government was wise to utilize voluntary associations and these services, as well as those promoted by authorities, have alleviated the pain and misery accompanying all the dislocations caused by war to the economic, political and social structure of the nation.

#### HEALTH SERVICES

During the first eighteen months of war more than 2,250,000 mothers and children living in England and Wales were transferred by official evacuation schemes from large cities to small towns, villages and the country. Many of these individuals were evacuated as many as four times, and more than a million persons are still living in billets and householders not maintained by themselves. In addition, there are many thousands of citizens sleeping in shelters, even though the greatest danger from air raids appears to be past, and many of them take their meals and secure their recreation in these underground dormitories.

As citizens were evacuated maternity, child welfare workers, school doctors, dentists and nurses had to be organized to follow them to reception areas. Treatment centers were established, psychiatric social workers appointed, welfare workers aided in billeting mothers and children, and over 100 emergency maternity

homes were set up in safe areas. Emergency medical, hospital and laboratory services were organized to care for air raid casualties, and more than 300 residential nurseries were set up for children under five. Additional hospital accommodations were provided by adapting and equipping existing buildings and by erecting hospital huts in the grounds of institutions. Over 400,000 hospital beds in England and Wales were provided for emergency services and more than thirty public health laboratories were set up in the country. Fortunately there has been no great increase in typhoid fever; deaths from influenza have been lower than in recent years; dysentery and scarlet fever have been reduced in occurrence; diphtheria has been held at its normal level.

A nationwide drive has been instituted to immunize all of Britain's 11,500,000 children under 15. The slogan for the campaign soon became "Safety for Sixpence" and through it the majority of children have been made safe from contagious diseases. While childbirth mortality is still too high it has been reduced to a record low, 2.61 per thousand births, and this improvement has been secured in spite of air raids, abnormal shelter life and redistribution of civilians. All the doctors were registered well in advance of war and they have been used in work in which their training was of greatest value. Hospitals have been grouped in regions, each with a Government official in charge. Patients are sent either to the voluntary or to the State hospital which can best aid them to secure a recovery. A healthier nation looms in prospect in the post-war years.

The health of all war workers has received special attention. A deputation of the British Medical Association visited the Minister of Labor early in the conflict and recommended that every factory should be required to maintain a medical officer on full-time duty and that an organization should be set up to conduct, on a nation-wide scale, industrial health research. In June 1941 a Factory and Welfare Advisory Board was set up to assist the Minister in developing safety, health and welfare arrangements in factories. The Minister, later, decided to bring back into operation the Factory Acts which meant that women would not be permitted to work for more than 54 hours a week. He has considered accidents, medical supervision, industrial diseases, lighting, heat-

ing, ventilation, hours of work, holidays, feeding, medical and welfare supervision inside factories, and billeting, reception, feeding, day nurseries and recreation outside them.

Reliable data indicate that air raids have not been responsible for any increase in neurotic illnesses. Insanity has not increased and suicide has diminished.<sup>4</sup> The health services have stood up well under the additional burdens placed upon them. Normal services have functioned with efficiency and new resources have been called upon to meet the demands imposed by the war. As the result of this conflict Britons have become more aware than ever before of approved health habits, medical and nursing services available for their use, and of proper diets. Diseases attributed to malnutrition have not increased and an analysis of the causes of deaths recorded indicates that the health of the nation has been maintained. Additional evidence to this statement is provided by the fact that Britons are working harder and for longer hours than before the war, and in many cases this work is done in air raids and blackouts and under pressure to turn out volumes of materials. While the maintenance of the health of the public reveals that despondency has not affected citizens, it also indicates the farsighted policy of the Government and its careful planning of the many public health services developed in recent years.

#### SOCIAL REFORM

Sweeping reforms were to be proposed in November 1942 in the report of Sir William Beveridge covering post-war problems and how they should be met.<sup>5</sup> This report was to contain recommendations for the introduction of a comprehensive system of social insurance and the establishment of a national income minimum below which no citizen would be permitted to fall. The report was to ask for £2 per week for a man and wife with family allowances providing 8s for each child after the first. This sum would be irreducible. The report, also, was to include State insurance and State medical service which would provide protection from birth to death in sickness, unemployment, old age, maternity, widowhood and death. The cost of these benefits, estimated to be £700,000,000, would be covered, at least partially, by heavy income tax, and payments by employers and employees.

A summary of the new scheme follows:

1. The plan covers all citizens without upper income limit, but has regard to their different way of life: it is a plan all-embracing in scope of persons and needs, but is classified in its application.
2. In relation to social security the population falls into four main classes of working age and two others below and above working age, respectively:

Class 1—Employees, that is, persons whose normal occupation is employment under contract service.

Class 2—Others gainfully occupied, including employers, traders and independent workers of all kinds.

Class 3—Housewives, that is, married women of working age.

Class 4—Others of working age not gainfully occupied.

Class 5—Below working age.

Class 6—Retired above working age.

3. The sixth class would receive retirement pensions and the fifth would be covered by children's allowances paid from the Exchequer in respect to all children when a responsible parent is in receipt of an insurance benefit or pension and in respect to all children except one in other cases. The four other classes will be insured for security appropriate to their circumstances. All classes will be covered for comprehensive medical treatment and rehabilitation and for funeral expenses.
4. Every person in Classes 1, 2 and 3 will pay a single security contribution by stamp on a single insurance document each week or combination of weeks. In Class 1 the employer also will contribute, affixing an insurance stamp and deducting the employee's share from his wages or salary. The contribution will differ from one class to another according to the benefits provided and will be higher for men than women so as to secure the benefits for Class 3.
5. Subject to simple contribution conditions, every person in Class 1 will receive benefits for unemployment and disability pension on retirement, medical treatment and funeral expenses. Class 2 will receive all these except unem-

ployment and disability benefit during the first thirteen weeks of disability. Class 4 will receive all except unemployment and disability benefit.

As a substitute for the unemployment benefit a training benefit will be available to all classes other than Class 1 to assist them to find a new livelihood if the present ones fail. A maternity grant, provision for widowhood and separation, and qualification for retirement pensions will be secured to Class 3 by virtue of their husbands' contributions: in addition to the maternity grant, housewives who take paid work will receive the maternity benefit for thirteen weeks to enable them to give up working before and after childbirth.

6. The unemployment benefit, disability benefit, basic retirement pension after the transition period and training benefit will be at the same rate irrespective of previous earning. This rate will provide by itself the income necessary for subsistence in all normal cases. There will be a joint rate for a man and wife who is not gainfully occupied. Where there is no wife or she is gainfully occupied there will be a lower single rate: where there is no wife but a dependent above the age for the children's allowance there will be a dependent allowance.

The maternity benefit for housewives who work also for gain will be at a higher rate than the single rate in unemployment or disability, while their unemployment and disability benefit will be at a lower rate: there are special rates also for widowhood as described below. With these exceptions all rates of benefit will be the same for men and women.

Disability due to industrial accident or disease will be treated like all other disability for the first thirteen weeks; if the disability continues thereafter the disability benefit at a flat rate will be replaced by the industrial pension related to the earnings of the individual, subject to the minimum and maximum.

7. The unemployment benefit will continue at the same rate without a means test so long as unemployment lasts, but

will normally be subject to the condition of attendance at work or a training center after a certain period. The disability benefit will continue at the same rate without a means test so long as disability lasts or till it is replaced by an industrial pension, subject to acceptance of suitable medical treatment or vocational training.

8. Pensions other than industrial would be paid only on retirement. They may be claimed at any time after the minimum age retirement of 65 for men and 60 for women. The rate of pension would be increased above the basic rate if retirement were postponed. Contributory pensions as of right would be raised to the full basic rate gradually during the transition period of twenty years in which adequate pensions, according to needs, would be paid to all persons requiring them. The position of existing pensioners would be safeguarded.
9. While permanent pensions would no longer be granted to widows of working age without dependent children, there would be for all widows a temporary benefit at a higher rate than the unemployment or disability benefit, followed by a training benefit where necessary. For widows with the care of dependent children there would be a guardian benefit in addition to children's allowances adequate for subsistence without other means.  
The position of existing widows on pension would be safeguarded.
10. For a limited number of cases of need, not covered by social insurance, national assistance subject to a uniform means test would be available.
11. Medical treatment covering the requirements would be provided all citizens by a national health service organized under health departments, and post-medical rehabilitation treatment will be provided for all persons capable of profiting by it.
12. A Ministry of Social Security will be established, responsible for social insurance, national assistance and encouragement and supervision of voluntary insurance and will take over so far as necessary for these purposes the present

work of other government departments and of local authorities in these fields.

Following is an outline of the main financial proposals:

An insured man would make a weekly contribution of 4s 3d to cover all the benefits and services provided. An employer would contribute 3s 3d. Insured women would pay 3s 6d and an employer would pay 2s 6d. The estimated cost to the National Exchequer would be £350,000,000 in 1945, instead of £265,000,000 under existing commitments. The cost to insured persons would be £194,000,000 in 1945, instead of £69,000,000. The cost to employers would be £137,000,000, instead of £83,000,000.

Following are the main changes from existing practice proposed:

The employment benefit would be raised from 38s a week for twenty-six weeks, followed by assistance on a means test to 56s a week unlimited in time without a means test, subject to attendance at a training center if unemployment were prolonged. The old age benefit from 20s a week for man and wife, supplemented by an assistance board according to needs to 40s a week on retirement from work plus 2s a week increase each year that retirement is postponed. Widowhood from 18s to 40s a week. Maternity £2 to £4. Funeral from nil to £20. Industrial disability from a maximum of 35s to a minimum of 56s and a maximum of 76s a week. Other disability from 18s to 56s a week.

Medical treatment at present provides the service of a general practitioner for an insured man only with additional treatment and benefits in some cases. The plan envisages comprehensive treatment, including hospital, dental, ophthalmic and convalescent homes for a whole family and the cost of medical rehabilitation.

Sir William views the two foremost British problems arising from this war as concerned with unemployment and poverty, and he proposes to abolish both of them by means of public works, social insurance and minimum individual income. As both of

these ills of society have been abolished twice in the lives of British citizens, both times by war, what he wishes to accomplish is a continuance of national planning on a wartime basis. He believes that, after the war, civilians may not be employed in their original pre-war capacities as they must work for the benefit of the community. However, freedom of opinion, of politics, of personal property, and of saving or spending one's income would continue to be maintained as essential freedoms of the nation. Housing, one of the main sections of the report, would serve two purposes in the post-war period as it would provide employment and decent dwellings for citizens.

This revolutionary report, which has been contrasted with President Roosevelt's New Deal, if adopted by Parliament will mean that Britain will emerge from this war far ahead of the United States in the field of social security. In the planning of the post-war social climate of their country British economists have taken the lead over their American cousins, and it is entirely probable that the Beveridge report, incorporating some of the most drastic changes in the history of Britain, may be adopted by the three political parties, culminating in the unification of all forms of social insurance under a Minister of Social Security, and securing the abolishment of the gravest social ills from which the nation has suffered.

Sir William's Committee on Social Reconstruction has been presented with a married women's charter, drawn up by the Married Women's Association, which aims to abolish many of the injustices applying to the marital status today in Britain including the facts that women are not recognized as genuine workers for, one year after marriage, a married woman forfeits her right to national health insurance, and two years after marriage she loses the benefit on her maternity payments. The seven point program, which the Association hopes may be introduced, include the following: the Government to institute a national social security plan for all; maternity payments to be made to the wife instead of to the husband, and the wife, also, to be granted a sick benefit at the seventh month of pregnancy to enable her to hire a helper to do the heavy housework; the benefit to continue for two months after childbirth; old-age pensions of £2 weekly to be paid to house-



wives, the same as other workers; a widow to be paid £2 weekly for three months after the death of her husband to enable her to readjust her life and find a job; a similar allowance to be paid to wives who have been deserted by their husbands, pending a settlement in court; wives to be insured against their husband's unemployment; charitable aid institutions to be replaced by a State medical service. The Association, also, has drafted a bill for presentation to Parliament in which it was proposed that family earnings be pooled between the man and the woman who are to agree to set aside a sum for the normal housekeeping expenses, the children's education and amusements, and who are to share equally in any sum remaining. These proposals offer some indication of the trend of thought in wartime Britain, and the drastic measures which may emerge from it during or after the war.

Fortified by the pre-war social services and additional measures of social security adopted or about to be adopted during this conflict positive benefits have emerged, benefits which will continue to aid citizens in the years to come. Many measures have had to be modified, especially those concerned with the evacuation of civilians and the care of air-raid victims, but regulations have been elastic and they have varied as circumstances and individuals required. All social measures which have been enacted or considered during the trials of war have been designed for one purpose: to assure a life endowed with security and health for all citizens through more continuous employment, elimination of poverty and depressed areas, and attainment of pleasanter home and community life for all citizens, irrespective of their background, age or income. It is possible, therefore, that post-war Britain may, because of the thoughts and plans of outstanding British citizens, be a better place in which to live, marry, work and play than that of the leisurely, class-conscious, free days before September 1939.

## CHAPTER XI

### TRANSITION FROM WAR TO PEACE

As it was recognized that unpreparedness for peace was as dangerous as unpreparedness for war the British Government, in 1940, appointed Lord Balfour chairman of research on the subject of planning the nation's post-war social environment.

One problem that has come under consideration has been geographic, a direct result of the major shifts in industrial and civilian populations. Another has been educational, including the place of the public school and the university in future years. But to gather facts concerning these and similar questions was not enough. In addition, there had to be a constructive program developed to educate the public to the drastic changes which must follow this war. Harold Laski has directed attention to the importance of change today "for with victory the readiness of men for great changes will gradually fade; this is the historic hour of opportunity—if we do not act while it lasts it is unlikely to recur." It is in this spirit that the Government today is preparing the groundwork and setting the scene for post-war Britain.

For the first time in her history Britain faces the fact that, at the conclusion of hostilities, she will be a debtor nation. Reliance will have to be placed, to an increasing degree, by her citizens upon their nation's resources and on their ability to produce what they consume. It is already seen that Government control of industry can not be relaxed rapidly when the war ends and that it must continue for sometime as, to remove all wartime control, overnight, would result in widespread chaos and hardship. Most observers believe that any controls aimed at increasing the nation's efficiency must continue into the future, that business, commerce, finance and industry can never return to their pre-war freedom of

activity until a period of transition has taken place. In this transitional period universal rationing must continue, to prevent the excessive demand flooding the market which is undersupplied with goods, but then it will be impossible any longer to connect restraints with attainment of victory. Financial problems will continue to be pressing and high rates of taxation will have to be maintained for at least two or three years after peace.

The transfer of the economy from war to peace production will impose tremendous problems upon the nation as it will entail the release of men from the services and women from factories, the shift of population in geographic area and employment, and the increase in jobless citizens. During this period community life must be sustained, national and industrial reconstruction must be carried forward.

Although no one can tell when and how peace will come certain basic plans have been evolved and the procedures by which they will be carried into effect have been stated. Industrial policy and social policy have been considered as interdependent in post-war Government plans. Officials have discussed post-war problems frankly and in detail with the people, following the general practice of informing citizens of contemplated major changes.

The Government has addressed some of the best minds of the country to consideration of the problems that will emanate from the war. Some of them are concerned with industry, others with agriculture, housing, finance, foreign trade, social conditions, and employment. An Executive Committee for Planned Reconstruction after the War, with Arthur Greenwood as Chairman, has studied the reconstruction of industry, the reorganization of agriculture, and the problems of emigration and immigration, overseas trade, transportation and education. Both physical and social reconstruction, therefore, is being plotted at the present time in order that detailed plans can go into effect without waste of time and misdirection of energy as soon as peace is signed.

#### REBUILDING

As destruction from bombing occurred plans for reconstructing devastated areas were made. That this planning took place from an early date is revealed by the fact that Sir John Reith became

Minister of Works and Buildings during the Fall of 1940.<sup>1</sup> Under his able leadership a Cabinet Committee addressed itself to the planning of a new and modern Britain after the war and utilizing the Government's property insurance plan as the financial basis for projects of rebuilding.

Plans were soon formulated for the provision of elastic emergency transport facilities for London and other large cities. Evacuation within the city's area and outside it had provided concrete evidence of the benefits of decentralization. The Minister's tasks were immediate and they were concerned, first, with the repair of demolished cities. Control of all rebuilding was placed in his hands because all construction could be banned if a license were not secured. In addition, the Minister endeavored to prevent speculation in, and the increase in the cost of, reconstruction.<sup>2</sup>

Test surveys were made of Coventry, Birmingham and Bristol to secure reconstruction of the most devastated areas in Britain. Some of the steps taken for war purposes, such as the standardization of bricks and building materials, have proved of great value in the rebuilding process. The building industry has been drastically overhauled. This step was of primary importance as it provided one of the most natural, economic and efficient channels through which industry could be diverted from war to peace production. Maximum compensation was paid to owners of land taken over for post-war reconstruction purposes at the value established for it at March 1939.<sup>3</sup> A panel of experts has been set up by the Ministry to evolve a technique of town and country planning for the post-war period. Members of this panel stated that their major aims include the following: cities, such as London, should be considered as a whole in rebuilding; slums should be abolished; wide new roads and tree-lined boulevards should be constructed; timber roofs and floors should be prohibited; a system of by-passes and ring-roads should be built to remove through traffic from congested streets; open trading marts should be opened for firms dealing in similar commodities. All these objectives indicate a drastic replanning of Britain.

More than 32,000 houses were destroyed in London alone during the blitz but, great as the damage has been, the plan has been announced of completely restoring devastated areas. The state-

ment has been made by public authorities that no more slum areas are to be permitted to rise from the ruins. Just before the war 100,000 citizens were removed from the poorer districts of London and rehoused by the London County Council in a development that contained modern cottages, individual gardens, broad avenues, public parks, tennis courts, cricket pitches and football fields. While the war has stopped all building, except emergency repairs to bombed houses and the erection of war factories, when it ends bombed areas should emerge in better shape, with the hope of far more happiness and health for their occupants, than was true in peacetime. Although Britain will face an estimated annual bill of £800,000,000 for ten years after the war to rebuild the nation plans are being made to finance this work, to train artisans, civil engineers and building trade employees, and to revamp the architecture of principal cities and towns. It has been suggested by Lord Reith that Parliament should create a Ministry of National Development with complete charge of a comprehensive reconstruction<sup>3</sup> project, a plan which would change the present set-up under which reconstruction is handled by two Ministers, the Minister of Works and Planning and the Paymaster General.

#### SOCIAL AND ECONOMIC RECONSTRUCTION

The Minister of Works and Buildings has concentrated his attention upon physical reconstruction of Britain's environment. The tasks of the Minister concerned with social and economic reconstruction were segregated in the person of Arthur Greenwood, during the first part of the war, and in Sir William Jowitt after the recent Cabinet shake-up.<sup>4</sup> The terms of reference for the former's appointment stated:

The object will be to find practical solutions for the immediate problems of a transition from war to peace and also to outline and presently to amplify a policy for the years immediately following the war which will command the support of the nation as a whole and enable unlimited action to proceed in peace and in war.

Arthur Greenwood considered two important problems: first, the arrangement of an orderly system of priorities in demobiliz-

ing men from the forces; second, the method of securing the reinstatement in civilian life of men and women in the armed forces or in the civil defenses and for their further education. As it was recalled that many important changes had followed the last war, such as the Reform Act of 1918 which added 2,000,000 men and 6,000,000 women to the electoral roll, the Fisher Education Act, the Housing Scheme, and the organization of the Ministry of Health, reconstruction at home, as the first step in the direction of European replanning, looms as an important step forward.

The work of investigating problems of reconstruction is under the general direction of a Ministerial Committee of the War Cabinet. The investigation falls upon various Government Departments concerned and upon organizations which are consulted for expert opinion. Certain parts of the program have been the subject of consultation between the British and the Dominion Governments. Post-war problems of the Colonies and Dominions have been considered in relation to British issues and to those of the world at large.

#### FINANCIAL RECONSTRUCTION

Many of the post-war problems are of a financial nature. War-time exchange control, for instance, cannot be abandoned when war ends as the Government will be short of dollars. The possibility of international cooperation between Great Britain and the United States to restore the free movement of capital and goods after the war will depend, to a great extent, upon the response of the latter country to the problem of making tariff concessions. The question of more unrestricted trade is one that seeks solution. The Atlantic Charter signed by President Roosevelt and Prime Minister Churchill on August 14, 1941, cleared many issues but it did not shed light upon this particular one. This historic document reads as follows:

The President of the United States and the Prime Minister, Mr. Churchill, representing His Majesty's Government in the United Kingdom, have met at sea.

The President and the Prime Minister have had several conferences. They have considered the dangers to world civilization arising from

the policies of military domination by conquest upon which the Hitlerite Government of Germany and other Governments associated therewith have embarked, and have made clear the steps which their countries are respectively taking for their safety in the face of these dangers.

They have agreed on the following Declaration:

The President of the United States of America and the Prime Minister, Mr. Churchill, representing His Majesty's Government in the United Kingdom, being met together, deem it right to make known certain common principles in the national policies of their respective countries on which they base their hopes for a better future for the world.

*First*, Their countries seek no aggrandizement, territorial or other;

*Second*, They desire to see no territorial changes that do not accord with the freely expressed wishes of the peoples concerned;

*Third*, They respect the right of all peoples to choose form of government under which they will live; and they wish to see sovereign rights and self-government restored to those who have been forcibly deprived of them;

*Fourth*, They will endeavor, with due respect for their existing obligations, to further the enjoyment by all States, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity;

*Fifth*, They desire to bring about the fullest collaboration between all nations in the economic field with the object of securing, for all, improved labor standards, economic adjustment and social security;

*Sixth*, After the final destruction of the Nazi tyranny, they hope to see established a peace which will afford to all nations the means of dwelling in safety within their own boundaries, and which will afford assurance that all the men in all the lands may live out their lives in freedom from fear and want;

*Seventh*, Such a peace should enable all men to traverse the high seas and oceans without hindrance;

*Eighth*, They believe that all of the nations of the world, for realistic as well as spiritual reasons, must come to the abandonment of the use of force. Since no future peace can be maintained if land, sea or air

armaments continue to be employed by nations which threaten, or may threaten, aggression outside of their frontiers, they believe, pending the establishment of a wider and permanent system of general security, that the disarmament of such nations is essential. They will likewise aid and encourage all other practicable measures which will lighten for peace-loving peoples the crushing burden of armaments.

It is apparent that greater collaboration must be secured for all nations after the war upon the agreement, reached collectively, that common policies cannot be imposed which will wreck the social and economic structure of individual nations, and upon their agreement that they will not pursue policies which will impose too heavy a burden upon their trading strength.<sup>5</sup> The main solution to post-war financial problems may be secured by collaboration at home and abroad by Britain and the other United Nations. The British problem remains that of developing her economic life and her rate of progress with greater dependence placed, than ever before, upon her resources. The practical question, also, is not introduced in these problems of whether the United States or Great Britain will return to the gold standard but whether, instead, either country will adopt a deflationary policy during the period of post-war reconstruction.<sup>6</sup> One of the important problems is the reestablishment of multilateral trade based upon free exchange as one method of solving the problems of post-war financial reconstruction and of attaining the proper consideration of lease-lend war agreements entered into by Britain and America.

#### PLANNING FOR PEACE

After the war, it is realized, the Government and industry will be required to cooperate with each other to a degree never before attempted. The former will, possibly, follow its present policy of keeping money as cheap as possible. It may establish special credit institutions to assist small borrowers. It may continue its control of the capital market to the point of discouraging unsatisfactory fields of investment. It may revise its system of taxation by levying less on income and more on capital. It must rehabilitate industry, assuring the nation that the organization of business is secure and



that security is not confused with monopolies and other undesirable practices in restraint of trade.

Changes of an economic, social and political nature have not been enacted during the war to establish a new social order but rather to aid in winning the war. In all cases citizens have enjoyed freedom of action, and Parliament has continued to pursue the role of critic of national policy. Just as the Government has played an important part in rebuilding the economic system during the war so always it will be called upon to readapt it for peace. Great imagination and astute execution of plans will be required to secure this equitable adjustment. The total, all-out warfare inherent in this conflict has meant the change of every aspect of life. These changes indicate that there can be no return to life as it was before, irrespective of when and how final victory will be attained.

The problem of building a new Britain, with her old ideals maintained and her standards enhanced, clarified and strengthened, offers a challenge to the best minds of the nation. These minds will be called upon to surmount the vexing post-war problems in order that sacrifices, which have been made in the interests of the war economy, may not be made in vain, in order that a better world may be assured to all citizens.

Post-war reconstruction, in Britain, will come under the control of the Board of Trade, the Ministries of Labor and Agriculture, the Treasury, the Ministries of Health and Works and Buildings, the Board of Education and the Ministry of Transport. The task of these officials is concerned with sorting out problems and obtaining expert advice, providing for consultation with the departments on the solutions, and securing a practical Ministry of Planning.<sup>7</sup> It is foreseen that a large program of development carried out by international cooperation may be the only practicable method of escaping from economic chaos after the war.<sup>8</sup> Captain Lyttleton, Minister of Production, in a recent address stressed the need for government planning to make a better post-war world and that the "essence of democracy should be a balance between the organizing power of the State and the driving force of the free individual." He views the crucial moment in social conditions five years after the war as the immediate post-war years will be

devoted to re-stocking consumers' goods. In this period, it is seen, the Government will have to assume the responsibility for improving capital assets, services and recreations.

Ernest Bevin, Minister of Labor, views the problem of evolving the right plan for demobilizing military and industrial forces as one of great consequence. The control of capital for the production of consumers' goods must be continued and the gap between production and consumption narrowed. A leading industrialist, Samuel Courtauld, believes that the Government must control all industries in the post-war period while labor must assume more direction of company policy and, at the same time, obtain greater rewards from industry.<sup>9</sup> He prophesies that the Government will control the future planning of industry, with the total elimination of speculation from the industrial field secured.

John Maynard Keynes considers that the technical problems of the end of the war will be handled more successfully than after the World War.<sup>10</sup> Two reasons support this argument, first, that the Treasury has borrowed money at half the rate of interest paid in the last war, and that there is not so much enthusiasm expressed by citizens to return to 1939 conditions. In his opinion the first task is to ascertain that there is enough demand to provide employment for everyone, and the second to prevent a demand in excess of the physical possibilities of supply. The building program should be proportioned to the resources left after daily requirements have been met and after enough goods have been produced for exportation to pay for what is required to cover imports from abroad.

#### STATEMENTS OF GOVERNMENT OFFICIALS

Various groups already are at work planning for the post-war period. Representative quotations of Government leaders and others are included here to indicate the trend in thought and planning for a better Britain and a better world in future years:

In May 1941 Anthony Eden, Secretary of State for Foreign Affairs, spoke particularly of freedom from want in the following words:

We have declared that social security must be the first object of our domestic policy after the war. And social security will be our policy

abroad not less than at home. It will be our wish to work with others to prevent the starvation of the post-armistice period, the currency disorders throughout Europe, and the wide fluctuations of employment, markets and prices which were the cause of so much misery in the twenty years between the two wars. We shall seek to achieve this in ways which will interfere as little as possible with the proper liberty of each country over its own economic fortunes.

Let no one suppose, however, that we for our part intend to return to the chaos of the old world. To do so would bankrupt us no less than others. When peace comes we shall make such relaxations of our wartime financial arrangements as will permit the revival of international trade on the widest possible basis. We shall hope to see the development of a system of international exchange in which the trading of goods and services will be the central feature. . . .

However, to meet the problems of the immediate post-war period, action in other directions will also be required. The liberated countries, and maybe others, too, will require an initial pool of resources to carry them through the transitional period.

To organize the transition to peaceful activities will need the collaboration of the United States, of ourselves, and of all free countries which have not themselves suffered the ravages of war. The Dominions and ourselves can make our contribution to this because the British Empire will actually possess overseas enormous stocks of food and materials, which we are accumulating so as to ease the problems of the overseas producers during the war, and of reconstructed Europe after the war.

Apart from its general cooperation with the United Nations the British Government has indicated that it hopes to use the machinery of the International Labor Office wherever possible. Clement Attlee, Deputy Prime Minister, attended the conference of the I.L.O. in New York in October 1941 and in the course of his speech stated:

The problems of peace cannot be solved by one nation in isolation. The plans of a post-war Britain must be fitted into the plans of a post-war world, for this is not a fight between nations, it is a fight for the future of civilization. As far as we can see now, the measures to be taken will fall into two categories: first, urgent measures to relieve want and meet difficulties in the immediate post-war period;

secondly, longer-term arrangements for the future. Methods which may be appropriate and even necessary in the interim period, will not necessarily be the best as a basis for long-term policy, but the two stages will overlap and cannot be kept in water-tight compartments.

In February, 1941 the Minister of Works and Buildings appointed an Expert Committee on Compensation and Betterment, under the Chairmanship of the Hon. Mr. Justice Uthwatt, with the following objectives:

1. To advise, as a matter of urgency, what steps should be taken now or before the end of the war to prevent the work of reconstruction thereafter being prejudiced. To consider in this connection:
  - (a) Possible means of stabilizing the value of land required for development or redevelopment, and
  - (b) Any extension or modifications of powers to enable such land to be acquired by the public on an equitable basis.
2. To examine the merits and demerits of the methods considered.
3. To advise what alterations of the existing law should be necessary to enable them to be adopted.

The Committee submitted an Interim Report (Cmd 6291) in July, 1941. Speaking of this report the Minister of Works indicated the Government would introduce legislation to give effect to its recommendations that compensation for land acquired for reconstruction should not exceed, as a general rule, the value of the land in March 1939; that reconstruction areas should be planned as a whole, and that the planning authorities should be given adequate powers to plan schemes comprehensively; that there should be no temporary reconstruction except under strict license. Its final report, rendered in September 1942, made the following propositions:

1. The development rights in all undeveloped land should pass immediately into the possession of the State, and that no development in such land should be allowed henceforth without the authorization of the National Planning Authority.
2. The power of public bodies to acquire land already developed should be greatly simplified and extended, and that it should not be confined to land which is definitely required for public use.

3. A quinquennial valuation should be made of the site value of all land, except agricultural land, and that 75% of increments in site values be taken by the State.
4. Compensation should be based on estimated values where land is publicly acquired, but that there be, for the present, a ceiling to compensation which should not exceed pre-war value.
5. Compensation for the public acquisition of development rights should take the form of a global sum, which will then be divided among the claimants by a tribunal, as in the case of coal acquired by the State under the post-war Coal Act.

The Committee did not propose any general nationalization of either urban or rural land as it believed this move to be immediately impracticable although, in the long run, the logical outcome of its study. It considered that a unified treatment of land in accordance with the national interest could be secured if a National Planning Authority were set up by the Government by means of a separate Ministry, with a capable and powerful Commission attached to it, fully empowered not only to coordinate local or regional plans but to secure a constructive national plan for the entire nation covering all kinds of development, the use of all types of land, and the reduction of existing towns and cities as well as the construction of new homes and the relocation of industries to secure a better balance. The fulfillment of the principles of the Committee's report, therefore, wait upon action of the Government to create the Planning Authority and to hold the construction of property to be for the benefit of citizens not for the profits of contractors.

Speaking for the Government on February 11, 1942 Arthur Greenwood, Minister without Portfolio, described the following steps that had been taken to replan post-war Britain:

The existing statutory duties in regard to town and country planning, exercised by the Minister of Health in England and Wales, will be transferred to the Ministry of Works and Buildings. . . . The Ministry will be recognized as the Department which local authorities must consult on the general lines of town and country planning, and it will exercise the powers of the Central Government under the Town and Country Planning Acts. It will also lay down the general

principles to which planning must conform. The Secretary of State for Scotland will exercise the powers for Scotland. . . .

The Ministers will be assisted by a Committee of senior officials representing the Departments concerned; and the main functions of this Committee will be to ensure that, as far as possible, the national policy of urban and rural development is carried out as a single and consistent whole. The "Council of Ministers" previously appointed will be dissolved. The Government believes that (by these steps) the speedy provision of houses for those who need them, the redevelopment of devastated areas, the clearance of slums, the provision of all necessary public services and the general promotion of rural development in the light of a positive policy for the maintenance of a healthy and well-balanced agriculture, can be welded into a single and consistent policy . . . The Government will review, having regard to subsequent developments and experience, the objectives stated in paragraph 4 of Section 428 of the Report of the Royal Commission on the Distribution of the Industrial Population, namely:

- (a) Continued and further redevelopment of congested urban areas, where necessary.
- (b) Decentralization or dispersal, both of industries and industrial population, from congested areas.
- (c) Encouragement of a reasonable balance of industrial development, so far as possible, throughout the various divisions of regions of Great Britain, coupled with the appropriate diversification of industry in each division or region throughout the country.

The Government will study and concert, in the light of the review, the steps that should be taken to reach these objectives. In furthering their policy for urban and rural development, the Government will seek to avoid measures which would interfere with the overriding aim of raising the standard of living to the highest possible level. In particular, the Government (a) will seek to ensure that fresh development is planned with due regard to the use which can be made of existing capital, equipment and existing public services, and will not wantonly countenance the break-up of old and valuable industrial concentration; (b) will seek to avoid the diversion of productive agricultural land to other purposes if there is unproductive or less productive land that could reasonably be used for those purposes. The necessary legislation to give effect to these decisions will be introduced at an early date.

The Minister of Health, speaking in the House of Commons in May 1941, emphasized the need to reconsider social insurance plans:

It is the Government's hope that it will be possible to carry through in due course a thorough overhaul of the existing schemes of social insurance particularly health and pensions insurance and workmen's compensation. It is obvious that legislation for so wide a purpose could not be introduced at an early date and that its scope and content must necessarily depend upon many conditions which cannot yet be foreseen. The Government is, however, of the opinion that the comprehensive survey of the existing scheme which must be an essential preliminary to such legislation should be set on foot at once as part of post-war planning.

Mr. Greenwood, speaking in the House the following October, indicated that Sir William Beveridge had become chairman of an interdepartmental committee to conduct the survey, and reference has been made to the recommendations emanating from the report of this survey.

On July 31, 1941, R. A. Butler, President of the Board of Education, indicated post-war educational developments as follows:

On the instructions of my predecessor, a memorandum has been prepared by some officers of my Department setting out their personal views of the directions in which the educational system stands in need of reform, and their suggestions as to ways in which such reform might be effected. This memorandum was designed to serve simply as a basis for the discussion of educational problems of the future with the representatives of local education authorities, teachers and other bodies, with which the Board are associated in the service of education. It will be appreciated that the proposals in the memorandum may be subject to reconsideration and modification in the light of these discussions, and the memorandum is therefore not suitable for issue as an official publication of the Department, or as a statement of Government policy. It has accordingly been circulated confidentially for consideration by the representatives of local education authorities, teachers' organizations and other appropriate bodies.

The Duke of Norfolk, Under-secretary of State for Agriculture, speaking in the House of Lords in July 1941, outlined agricultural policy as follows:

The Government are fully alive to the necessity of working out a comprehensive long-term agricultural policy. They are also certain that all parties must be agreed upon this matter. The necessity of avoiding a repetition of the disasters which overtook agriculture in the years that have passed means that we must very carefully consider not only the political parties but also the various interests which are connected with agriculture. If we are to achieve the results desired by all those interested, we must consider not only our people at home, but overseas countries and the Dominions. We are still in the very early stages, however, and I cannot today give any details to your Lordships; but I will say that we have given to very many points, in broad outline, a great deal of consideration. I can say also that His Majesty's Government are firmly resolved that they will do their very utmost to see that the impoverished state and neglected condition into which agriculture fell between the last Great War and this, shall never happen again. . . . I am confident that cooperation and goodwill throughout will achieve the desired results and that people may live in comfort on the land, producing a reasonable living and producing food in abundance from the land which is their inheritance.

Ministerial responsibility for the study of post-war problems was allocated in the early part of 1941 relative to social and economic reconstruction to the Minister without Portfolio and as to physical reconstruction to the Minister of Works and Buildings. In the next year, however, the former work as assigned to the Paymaster-General and the latter to a retitled Ministry of Works and Planning. A wide range of problems was brought within the area of consideration of Governmental Committees concerned with the domestic aspects of reconstruction and with the problems of international scope. A summary of the findings of these Committees follows, first as to domestic reconstruction:

I. Agriculture

- (a) The Minister of Agriculture stated, in July 1941: "I have appointed a Committee . . . to examine the present system of



agricultural education and to make recommendations for improving and developing it after the war."

- (b) In February 1942 a Committee was set up "to review the position of the herring industry and the problems which are likely to confront it after the war and report."

2. Armed Forces

- (a) The Paymaster-General stated in April 1942: "The question of the machinery which will be necessary for securing that release from the forces can be effected according to an orderly system of priorities and cognate questions are being considered by an Interdepartmental Committee . . ."
- (b) The President of the Board of Education stated, in March 1941, that he had appointed an Interdepartmental Committee to consider and report upon the plans "which should be made to enable suitable persons, both men and women, who have served in the Armed Forces or in the Civil Defense Services to obtain the further education or training necessary to equip them for appropriate occupations in civil life after the war."

3. Education

- (a) In March 1942 the President of the Board of Education announced "the appointment of a Committee to investigate the present sources of supply and the methods of recruitment and training of teachers and youth leaders and to report what principles should guide the Board in these matters in the future . . ."

4. Electoral Register

- (a) The Home Secretary announced the terms of reference of a committee to consider the administrative and technical problems that are expected to arise in connection with the preparation of a new Register of Electors and possible redistribution of seats.

5. Health

- (a) The Minister of Health considered the hospital policy of the Government in a statement to the House of Commons in October 1941 and indicated that after the war it would establish a comprehensive hospital service available to all persons in need of it. A survey of hospitals in London and surrounding areas was to be instituted.

- (b) A committee was appointed by the Minister of Health to consider the organization of medical schools, appointment and remuneration of teaching staffs, provision of an adequate range of cases for study, and suitable equipment.
  - (c) The Central Housing Advisory Committee met in March 1942 to consider post-war housing and it set up a sub-committee to consider the design of houses and flats. Other sub-committees are to be appointed to consider other aspects of housing problems likely to arise after the war.
6. Population
- (a) In March 1941 the Minister without Portfolio stated that he had asked the Departments concerned "if they would examine the Report of the Royal Commission on the Distribution of the Industrial Population from the point of view of their own particular duties and responsibilities. That has been done and we are now considering the next stage."
7. Rebuilding
- (a) Several Committees are considering this problem. The Uthwatt Committee Report already has been described.
  - (b) The Scott Committee, under the Chairmanship of Lord Justice Scott, is considering "conditions which should govern building and other constructional development in country areas consistently with the maintenance of agriculture and, in particular, factors affecting location of industry having regard to economic operation, part-time and seasonable employment, the well-being of rural communities and the preservation of rural amenities."
  - (c) A consultative panel, appointed in April 1941, has prepared maps for planning showing physical features, land uses, movement of population, industry and communications. Also, it has considered the demand for, and training of, technical planning staffs to work in consultation with the Royal Institute of British Architects, the Town Planning Institute and universities and technical schools. "Principles are emerging of community planning, industrial and residential zoning and open space reservations" according to the Minister of Works and Buildings.
8. Rehabilitation of Disabled Persons
- (a) A plan announced by the Minister of Labor, October 1941, provides an interim plan for the training and resettlement of

disabled persons of all classes. In January of the next year the Government proposed "to provide for the rehabilitation and training for employment of disabled persons who are not provided for by the interim scheme and . . . to prepare as soon as possible comprehensive measures for the rehabilitation, training and resettlement of disabled persons generally for introduction as soon as possible after the end of the war."

This summary of some of the more important committees concerned with post-war planning provides an understanding of the deliberations going forward in Britain at the present time. As a result of the reports of the various Committees valuable data have been presented to the Government and the public on the basis of which the groundwork for post-war Britain may be laid. In addition, other Committees have considered the problems of the Empire and of the United Nations from the angle, for example, of surplus commodities, export surpluses, agriculture, labor, relief, shipping, trade, and the collaboration of Allied Governments in London. The detailed reports of these Committees are being read by Government officials and their main features are rapidly incorporated in legislative measures designed to hasten economic, social and political changes which are recognized as essential to the proper functioning of the nation.

#### UNITED NATIONS' COLLABORATION

Recent speeches of statesmen of Great Britain and the United States indicate the marked similarity of outlook and idealism toward post-war problems, and the elaboration of the aims stated by the Atlantic Charter. A representative selection of statements contained in these speeches follows:

#### *Post-War Policy*

##### I. FREEDOM FROM WANT

1. Henry A. Wallace, Vice-President of the United States, 5/8/42

Modern science . . . has made it technologically possible to see that all of the people of the world get enough to eat. Half in fun and half seriously, I said the other day to Madame Litvin-

1. The Rt. Hon. the Viscount Cranborne Secretary of State for the Colonies, 6/2/42

The first step in reconstruction is what may be called relief. . . . The greater part of Europe will emerge from the war denuded of stocks of food

off: "The object of this war is to make sure that everybody in the world has the privilege of drinking a quarter of a quart of milk a day." She replied: "Yes, even half a pint."

The peace must mean a better standard of living for the common man, not merely in the U. S. and England, but also in India, Russia, China and Latin America—not merely in the United Nations, but also in Germany and Italy and Japan.

2. *Mr. Milo Perkins, Executive Director of the U. S. Board of Economic Warfare, 5/25/42*

Full blast production for a gradually rising standard of living will be as necessary to win the peace as an all-out production now is to win the war.

3. *Mr. John Winant, American Ambassador, 6/6/42*

When war is done, the drive for tanks must become a drive for houses. The drive for food to prevent the enemy from starving us must become a drive for food to satisfy the needs of all people in all countries. The drive for physical fitness in the forces must become a drive for bringing death and sickness rates in the whole population down to the lowest possible level. The drive for manpower in war must become a drive for employment to make freedom from want a living reality.

as well as of raw materials, and with few financial resources. Not only must food be provided in order to prevent starvation, but agriculture and industry must be revived, so that the peoples of each country may, as soon as possible be able to support themselves. . . . Nor will this problem be confined to Europe; it may be equally necessary to provide relief for countries in the Near East and in the Far East.

2. *Sir William Jowitt, K.C., M.P. Paymaster General and Minister in Charge of Reconstruction Studies, 7/22/42*

I see a hopeful possibility not only of restoring but of progressively raising our standard of living, for the war has speeded up technical invention and discovery and we should be able year by year to increase and improve our capital equipment and thereby progressively raise our national income. But we shall have to raise our total production appreciably above the pre-war level before we can improve our pre-war standard of consumption. The early prospect is arduous but the distant vistas offer great opportunities.

3. *The Rt. Hon. Anthony Eden, Foreign Secretary, 7/3/42*

The first task will be to feed the starving populations. . . . Certain steps have already been taken to provide for this event. For instance, in the Wheat Agreement, concluded between the United States, Canada, Australia, the Argentine and Great Britain, a plan has been agreed upon to store and distribute wheat fairly, so that the interests of the farmers in the producing countries and of the consumers will both be protected during an interim reconstruction period. This agreement also provides for a more permanent arrangement to include other countries when once they are free and able to voice their own needs.

4. *The Hon. Cordell Hull, Secretary of State of the United States, 7/23/42*

When the armies of our enemies are beaten, the people of many countries will be starving and without means of procuring food; homeless and without means of building shelter; their fields scorched; their cattle slaughtered; their tools gone; their factories and mines destroyed; their roads and transport wrecked. . . . Victory must be followed by swift and effective action to meet these pressing human needs.

4. *The Rt. Hon. Sir Stafford Cripps, M.P., Lord Privy Seal, and Leader of the House of Commons, 5/3/42*

Nationally and internationally we want to see a world consciously planned for better standards of living for the great masses of the peoples, whether British, Russian, American, Chinese, Indian or any other race.

5. *The Rt. Hon. Sir Stafford Cripps, M.P., Lord Privy Seal and Leader of the House of Commons, 7/25/42*

The Atlantic Charter is the expression of our conviction that the national resources of the world are now adequate—if wisely used—to provide a decent standard of life for all the peoples, and that all are therefore entitled to their fair share in these resources.

## II. EQUALITY OF PEOPLES

1. *The Rt. Hon. Henry A. Wallace, Vice-President of the United States, 5/8/42*

The violence preached by the Nazis is the devil's own religion of darkness. So also is the doctrine that one race or one class is by hereditary superior and that all other races or classes are supposed to be slaves. . . .

Those who win the peace must think of the whole world. There can be no privileged peoples. We ourselves in the United States are no more a master race than the Nazis.

2. *The Hon. Sumner Welles, Under-Secretary of State for the United States, 5/30/42*

If this war is in fact a war for the liberation of peoples it must assume the sovereign equality of peoples throughout the world, as well as in the world of the Americas. Our victory must bring in its train the liberation of all

1. *Sir William Jowitt, K.C., M.P., Paymaster General and Minister in Charge of Reconstruction Studies, 7/22/42*

We do not believe in the ideal of a superior race or a world divided into half-slave, half-free.

2. *The Rt. Hon. Anthony Eden, M.C., M.P., Foreign Secretary, 7/23/42*

It would be foolish to suppose that, after the war, some few, favored nations can enclose themselves within a charmed circle and go forward alone. The whole world is awake, everywhere the people are on the march, without distinction of race, colour or creed.

peoples. Discrimination between peoples because of their race, creed or color must be abolished.

3. *Rt. Hon. Sir Stafford Cripps, M.P.,  
the Lord Privy Seal, 5/3/42*

We are fighting not only to prevent our country being subjected to the cruel brutality of Hitlerism, but also to create after the war a better and happier world for all—not merely for some privileged sections of humanity.

7/25/42

Neither we nor any other nation must attempt to erect ourselves—as Hitler is striving to do with Germany—into a privileged people living upon the labour and the efforts of other—as he would call them—sub-human peoples. His conception of a “*Herrenvolk*”, which lies at the root of the Nazi philosophy, is a demand for special privileges and special standards, won not by the productive effort of the Germans themselves, but by their conquest and enslavement of all the neighboring races. It is against this conception that we are today fighting.

### III. A PEOPLE'S PEACE

1. *The Hon. Sumner Welles, Under-Secretary of State for the United States, 5/30/42*

This is in very truth a people's war. It is a war which cannot be regarded as won until the fundamental rights of the peoples of the earth are secured. In no other manner can a true peace be achieved.

1. *The Rt. Hon. Ernest Bevin, M.P.,  
Minister of Labor and National Service, 7/20/42*

This is a people's war . . . therefore it must be a people's peace.

### IV. SERVICE MOTIVE

1. *Mr. John Winant, American Ambassador, 6/6/42*

Just as the peoples of democracy are united in a common objective today, so we are committed to common objective tomorrow. We are committed to the establishment of service democracy.

1. *The Rt. Hon. Ernest Bevin, M.P.,  
Minister of Labor and National Service, 7/15/42*

If we can have ten years of national and international discipline too, if we can operate with other nations in keeping control in a modified form, and the great industries will rise to the occa-

sion and introduce this self-discipline for this motive of service, then I can see us building a civilisation that is going to last 100 or 200 years.

## *Ways and Means*

### I. FROM COMPETITION TO COOPERATION

1. *The Hon. Cordell Hull, Secretary of State of the United States, 5/18/42*

The international movement of goods is indispensable to the winning of the war. It will be equally indispensable to the winning of the peace . . .

The far-reaching economic objectives of the Atlantic Charter cannot be attained by wishful thinking. We in this country must realize that their achievement will be impossible if we follow policies of narrow economic nationalism, such as our extreme and disastrous tariff policy after the last war. We must realize that our own prosperity depends fully as much on prosperous conditions in other countries as their prosperity depends on ours.

2. *The Hon. Cordell Hull, Secretary of State of the United States, 7/23/42*

No nation can make satisfactory progress when it is deprived by its own action or by the action of others, of the immeasurable benefits of international exchanges of goods and services. The *Atlantic Charter* declares the right of all nations to access on equal terms to the trade and to the raw materials of the world which are needed for their economic prosperity. This is essential if the legitimate and growing demand for the greatest practicable measure of stable employment is to be met accompanied by rising standards of living . . .

1. *The Rt. Hon. Sir William Jowitt, K.C., M.P., Paymaster General and Minister in charge of Reconstruction Studies, 7/22/42*

We want collaboration between ourselves and the United States to go on after the war, but it must be collaboration which is in no sense exclusive between ourselves and from which all the United Nations may benefit . . .

We must increase our export trade, and we must do so in the face of the world, all countries of which are themselves becoming more industrialised. This is no selfish problem which concerns ourselves alone. We have surely learnt that we are all parts of a whole, all interdependent on each other.

2. *Sir Stafford Cripps, M.P., Lord Privy Seal and Leader of the House of Commons, 7/25/42*

We must frankly admit that in the past we have not succeeded in achieving a wise use of our resources and that therefore we shall need new methods and new organisations if the principles of the *Atlantic Charter* are to become a reality and not remain, as have so many good resolutions in the past, nothing but pious aspirations. The road upon which we must make this advance we have to some extent already plotted, and indeed we have actually proceeded along it in developing the plans of the United Nations for their war effort. It is nothing less than the subordination of private and

3. *The Hon. Paul Appleby, Under-Secretary of Agriculture of the United States, 7/10/42*

There must be in peace as in war a giving up of individual and national self-interests if individual and national self-interests really are to be served.

national interests to the public and international good. . . . There must be a determined change of outlook from that of competition to cooperation.

3. *The Rt. Hon. Sir William Jowitt, K.C., M.P., Paymaster General and Minister in charge of Reconstruction Studies, 7/22/42*

In the absence of world collaboration before the war, trade was becoming more and more restricted more and more the subject of hard bargaining between individual nations, resulting in bilateral treaties, barter agreements, blocked currencies and the like, all tending more and more to curtail trade and impoverish the world. With so many nations in financial straits after this war there will be a great temptation to go back to this state of affairs and even to intensify it. This must at all costs be avoided, but it can only be avoided if the more prosperous nations take a generous line, helping the others to stand once more upon their feet and to collaborate in a new system which will safeguard the world against this happening again. I say a "generous" line, but in reality it will prove to be the line of self-interest in the end. . . .

Our prosperity depends on the prosperity of the United States, and that prosperity depends on the prospects of of the world as a whole.

## II. EXCHANGE AND DISTRIBUTION

1. *Mr. Milo Perkins, Executive Director of the United States Board of Economic Warfare, 5/25/42*

The battle will be won when we have built up mass-consumption to a point where markets can absorb the output of our mass-production industries running at top speed. Then, so far as our physical needs are concerned, life can become a journey to be enjoyed rather than a battle to be fought . . .

1. *The Rt. Hon. Sir William Jowitt, K.C., M.P., Paymaster General and Minister in charge of Reconstruction Studies, 7/22/42*

Thanks to science and machines, the world today produces her fruits in due season and produces sufficient for everyone. There is no reason why any individual in the world should not have an adequate standard of living. The problem is a problem of exchange and distribution.



The world was unable to distribute what it had learned how to produce. This failure was as true of trade within countries as it was of trade between countries. The nightmare of under-consumption was the black plague of the pre-war era. We put up with a civilization which was commodity-rich but consumption-poor too long to avert the present catastrophe.

Full blast production for a gradually rising standard of living will be as necessary to win the peace as all-out production now is to win the war.

In every civilization of the past bar none, if men took the most that it was possible to produce and divided it among all who were alive to share it the answer was always a miserable standard of living. Within your lifetime and mine, however, men have entered an era dominated by the machine and the test-tube. If we take all that can be produced at the end of this war and divide it amongst the people who will then be alive to share it, we shall be within reach of a very good standard of living for the first time in all history.

2. *The Hon. Sumner Welles, Under-Secretary of State of the United States, 5/30/42*

The problem which will confront us when the years of the post-war period are reached is not primarily one of production, for the world can readily produce what mankind requires. The problem is rather one of distribution and purchasing power.

3. *The Hon. Cordell Hull, Secretary of State of the United States, 7/23/42*

Building for the future in the eco-

2. *The Rt. Hon. Anthony Eden, M.P., Secretary of State for Foreign Affairs, 7/23/42*

Industry has reached a stage in which there is no necessity for anyone in the world to go short of food, or to lack the means to build for themselves a better life. The problem is to organize a full production and an equitable distribution for all. Only decently fed and healthy people can work effectively for a better world. This will not be a short or an easy task; it will require the cooperation of every nation, each according to its capacity and experience.

3. *Sir Stafford Cripps, M.P., Lord Privy Seal and Leader of the House of Commons, 7/25/42*

The United Nations must at the end

conomic sphere means that each nation must give substance and reality to programs of social and economic progress by augmenting production and using the greater output for the increase of general welfare, but not permitting it to be diverted or checked by special interests, private or public. It also means that each nation must play its full part in a system of world relations designed to facilitate the production and movement of goods in response to human needs.

of the war undertake international regulation of the production and distribution of essential raw materials, both in the interests of the immediate rehabilitation of the devastated countries as well as with a view to attaining that steadily rising standard of living throughout the world which is one of our objectives. . . .

The greater we can make our own national contribution, not in preserving benefits for ourselves, but in making the whole pool of natural resources widely available for all peoples, the prouder shall we be of our part in the progress of human development.

The gift of science to the world is that it has shown the way to attain an economy of plenty; it has discovered where the natural wealth of the world is to be found and how it may be transformed into those things which the people need for their living. That knowledge is not the monopoly of any single country, for it has been made available to all the world. There is therefore now no necessity for competition in a world of scarcity to win a decent standard of livelihood for our people. If we make our full contribution to the productive resources of the world and other countries do the same, there can be enough for all.

### III. AN INTERNATIONAL OUTLOOK

1. *The Hon. Henry A. Wallace, Vice President of the United States, 5/8/42*

No nation will have the God-given right to exploit other nations. Older nations will have the privilege to help younger nations get started on the path to industrialization, but there must be neither military nor economic imperialism.

2. *The Hon. Paul Appleby, Under-Secretary of Agriculture of the United States, 7/10/42*

Britain knows with a clarity born of

1. *Rt. Hon. Ernest Bevin, M.P., Minister of Labor and National Service, 7/20/42*

No country can afford at the end of this struggle to be blinded by its own limited interest, nor can it make its contribution to the future progress of the peoples of the world unless it is prepared to look at the problems of the world as a whole.

2. *The Rt. Hon. Anthony Eden, M.P., Secretary of State for Foreign Affairs, 7/23/42*

No nation can hope to live alone;

suffering that she cannot survive alone, that the type of order she symbolizes and the ideals that activate her cannot survive except as she works with the United States and the United States works with Britain. Britain knows with the same clarity that one type of order now can survive only by following its own logic through drastic reforms in a deepened concern for the well-being of the masses the world around.

we have been taught that by the tragedy of this second World War. The march of invention has brought all nations into very close relations with one another. Whether we will or not, the world grows ever smaller. We must either build an orderly, law-abiding international society, in which each nation can live and work freely, without fear or favour, or we shall all be destroyed in a welter of barbaric strife.

#### IV. ANGLO-AMERICAN COOPERATION

##### 1. *The Hon. Paul H. Appleby, Under-Secretary of Agriculture, 7/10/42*

It is of equal importance that there be in this country deep understanding of the absolute necessity for the closest collaboration with Britain in post-war years. For unless we can build a larger international unity then, this war will have been fought in vain, and unless we can build in conjunction with Britain, we cannot build at all. . . .

It is for us a profound and reassuring fact that Britain today represents geographically and culturally a sort of political center of gravity for the world in the period ahead, for the elemental forces at work in the world. This is a compelling reason for our close relationship with her in years to come; in that relationship lies hope for an orderly solution, or orderly adjustment of our institution. . . .

Between these two peoples exists and grows a broader unity. Similar principles of law, similar ethics, similar aspirations, expressed in a common literature and a common language, give to us essentially a common culture.

##### 1. *The Rt. Hon. Sir William Jowitt, K.C., M.P., Paymaster General and Minister in charge of Reconstruction Studies*

We want collaboration between ourselves and the United States to go on after the war but it must be collaboration which is in no sense exclusive between ourselves and from which all the United Nations may benefit . . . I am convinced with Mr. Appleby that unless we can have collaboration in the post-war world our ideals and our standard of living cannot survive. We have much in common and we realise as they do that the future of the world rests on our continued collaboration with the United States.

##### 2. *The Rt. Hon. Anthony Eden, M.P., Secretary of State for Foreign Affairs, 7/23/42*

I am ambitious that Americans and we should establish a consciousness of Comradeship in war that will abide into the peace to come . . . But the comradeship I have in mind . . . will

endure only if Americans and we find that we care for the same fundamental things, liberty, decency and self-respect and opportunity for the common man, and that we care for them a lot.

### V. PROTECTING DIVERSITY

1. *The Hon. Paul Appleby, Under-Secretary of Agriculture, 7/10/42*

The compelling need ahead is to learn how better to protect diversity among peoples and persons, how better to capitalize on the added values of variety, and yet to find common denominators, common causes, a common unity for our diversity. . . .

Our culture, a product of diversity, appreciates the greater richness that adheres in diversity. This is why one unity offers not a threat but hope to the rest of the world. The world order we support will offer to all men place, opportunity. This really is the issue in this war.

2. *The Hon. Cordell Hull, Secretary of State of the United States, 7/23/42*

It is impossible for any nation or group of nations to prescribe the methods or provide the means by which any other nation can accomplish or maintain its own political and economic independence, be strong, prosper and attain high spiritual goals. It is possible, however, for all nations to give and to receive help. . . .

Continuous self-development of nations and individuals in a framework of effective operation with others, is the sound and logical road to the higher standard of life which we all crave and seek.

1. *The Rt. Hon. Anthony Eden, M.P., Secretary of State for Foreign Affairs, 7/23/42*

It is most encouraging to note that in the United States of America the President himself and a number of leading statesmen have repeatedly expressed a determination to work for a world in which each country shall be given opportunity to develop its own life and its own resources to the benefit of all. In this task our American friends can be sure that we shall be ready to meet and work with them all the time and all the way.

### VI. INTERNATIONAL POLICE FORCE

1. *The Hon. Sumner Welles, Under-Secretary of State, 5/30/42*

I believe they (the people of the U.S.) will insist that the United Na-

1. *The Rt. Hon. Anthony Eden, M.P., Secretary of State, for Foreign Affairs, 5/8/42*

The United Nations together must

tions undertake the maintenance of an international police power in the years after the war to insure freedom from fear to peace-loving peoples until there is that permanent system of general security promised by the Atlantic Charter . . .

2. *The Hon. Cordell Hull, Secretary of State of the United States, 7/23/42*

No nation can make satisfactory progress while its citizens are in the grip of constant fear of external attack or interference. It is plain that some international agency must be created which can—by force if necessary—keep the peace among nations in the future.

possess sufficient force to provide the police to prevent highway robbery and the success of gangster methods.

2. *The Rt. Hon. the Viscount Cranborne, Secretary of State for the Colonies, 6/2/42*

For law-abiding nations to disarm their army or their navy because they have won one war is really just as foolish as it would be for a law-abiding community to disband its police force because it has quelled one riot. The power of order—and this principle is incorporated in the Atlantic Charter itself—must be stronger than the forces of disorder if peace is to be preserved.

## VII. DISARMAMENT

1. *Mr. John C. Winant, American Ambassador, 6/6/42*

We must keep wise and vigorous, alive to need, of whatever kind, and ready to meet it, whether it be danger from without or well-being from within, always remembering that it is the things of the spirit that in the end prevail—that caring counts, that where there is no vision people perish, that hope and faith count and that without charity there can be nothing good, that daring to live dangerously we are learning to live generously and believing in the inherent goodness of man we may meet the call of your great Prime Minister and “stride forward into the unknown with growing confidence.”

2. *The Hon. Cordell Hull, Secretary of State of the United States, 7/23/42*

There must be international cooperative action to set up the mechanisms which can thus insure peace. This must include eventual adjustment of national armaments in such a manner

1. *The Rt. Hon. Anthony Eden, M.P., Secretary of State for Foreign Affairs, 5/8/42*

I am suggesting that never again shall we so neglect our armaments that we frighten our friends and delight our enemies. I am suggesting that never again shall our weakness give a free hand to the gangsters of Europe and Asia and betray all of those who, like ourselves, seek to work out their own lives in freedom and in peace.

2. *The Rt. Hon. the Viscount Cranborne, Secretary of State for the Colonies, 6/2/42*

Criminals, whether they be nations or whether they be individuals, must be fully disarmed.

that the rule of law cannot be successfully challenged and that the burden of armaments may be reduced to a minimum.

### VIII. PLANNING THE PEACE

1. *The Hon. Sumner Welles, Under-Secretary of State, of the United States, 6/17/42*

The final terms of the peace should wait until the immediate task of the transition period after the defeat of the Axis Powers have been completed by the United Nations, and until the final judgments can be coolly and rationally rendered. But the organization through which the United Nations are to carry on their cooperation should surely be formed so far as practicable before the fires of war which are welding them together are cooled. Everything which can be done to this end before the war is over must be done.

1. *The Rt. Hon. the Viscount Cranborne, Secretary of State for the Colonies, 6/2/42*

It is a great mistake during a war, to anticipate the terms of the future peace settlement. . . . But if it is a mistake to make a declaration of war aims, that is not to say it is a mistake for a nation to prepare war aims. That is a very different thing. Clearly any responsible Government ought, to the full extent that is possible, to make preparations for the situation which will arise when peace comes.

### IX. THE MORAL ISSUE

1. *The Hon. Cordell Hull, Secretary of State of the United States, 7/23/42*

There will be before all countries the great constructive task of building human freedom and christian morality on firmer and broader foundations than ever before.

1. *The Rt. Hon. Anthony Eden, M.P., Secretary of State for Foreign Affairs, 7/23/42*

For this great work of international relations to thrive it must be founded on a moral basis.

### MAIN POST-WAR ISSUES

Certain problems stand revealed from the preceding chapters of this book, problems which must be faced and solved in the years immediately following the signing of the peace. These include the demobilization of the forces and the return of men and women to their original fields of employment. In this connection it should be remembered that at the end of the last war unemployment had not appeared and did not assume alarming proportions until two years after the Armistice, and that 1921 was the first post-war depression year. The question to be considered here is not so much to find immediate post-war employment for the

fighting forces and civilians but rather to hold these individuals in jobs after the feverish post-war activity has spent itself.

Then there is the question of converting war plants and machinery to peacetime production. This should not prove too difficult as there will be a great demand for consumers' goods which has been unsatisfied during the war but which, after it, can be realized with the expenditure of war savings. This demand, however, will be of unusual amount and of limited scope. It must be controlled or it will provide temporary employment to thousands who, later, will be faced with the loss of their positions. It is possible, therefore, that Government control of production and spending must continue for some months or years in the post-war period. During this period every effort will have to be exerted to secure an alignment of the economic system to peace-time objectives and requirements. Industries concentrated for war purposes will come in for their measure of study and it is possible that many of them will never be reopened as greater efficiency will have been secured by nucleus units operating on a mass production basis. Not so much permanence of wartime concentration will apply to the retail trades as with the return of peacetime buying standards these trades will be stimulated.

The whole field of labor is one in which great range of experience and judgment in transferring men and women to peacetime production will need to be exercised. The Labor Supply Boards and the Essential Works Orders, so vital to increased war production, will no longer be needed although the Labor Exchanges will continue to hold important posts in locating jobs for men and men for jobs. Strikes and disputes, curtailed during the war, may reappear in marked numbers in the post-war period. Dilution of labor will have ended and skilled men, who have permitted unskilled men and women to be introduced into employment, will stress the exclusion of these individuals from their ranks. Training centers may continue to function as the means of re-fitting employees for new occupations. ✓

Financial restrictions undoubtedly will be relaxed after the war, although this relaxation ideally should occur gradually. Post-war Government control of Stock Exchanges, banks, and new investment markets will cease to occupy such an important role as in the

war period. The national income will be spent upon peace activities and upon the stimulation of employment for demobilized men. The control of foreign exchange represents one aspect of the whole picture of international trade and exchange which must be worked out by Britain in collaboration with the other United Nations. The former will face an enormous debt because of the war, and post-war Budgets will have to consider it as well as the refunding of post-war income tax credits and war loans. Taxes on incomes, on excess profits and on purchases may continue at their high levels but the second in order will be of relatively less importance than during the war and the last might well be eliminated as control of consumption assumes a position of less importance.

Government subsidization of essential foods and of agriculture may continue for some months after the war ends. Standardized articles, in all probability, will drop from production and rationing of consumers' goods, except to conserve foreign exchange, may be eliminated. Black markets will cease to operate and price rises will not be watched for fear of inflation. Increased outputs of foods on British farms and allotments may continue as one means of rationing imports. Communal feeding, as it has become so popular, may be continued under Government auspices.

Foreign trade offers one of the most difficult problems of post-war adjustment. Whether the rationing of imports and the stimulation of exports will occur depends to a great degree upon the trade barriers which may be erected by various countries after the war. Through some sound financial method Britain will have to pay the debts owing the United States before the Lease-Lend Act provided her with essential war materials. Coal production, if it can be increased by the return of former miners to the pits, may prove one method of increasing the British trade balance. And in relation to coal mining, as in other vital fields of production, it is already apparent that labor will wish to share additional responsibilities with management in the operation of companies. The joint management of plants and the joint discussion of operational problems appear to be important changes that will emerge from the war.

Sir William Beveridge has advocated that the Government now give assurance that it will use its powers to maintain employment



after the war and he has urged that it should set up an economic staff to draft national planning which would probably mean "the replacement of competitive private enterprise for profit by public monopoly enterprise not for profit in certain fields. But private and public enterprise alike will work within the limits set by the general design." Sir Stafford Cripps, in turn has drawn attention to the fact that the best minds of the world will be called upon to solve the political, economic and scientific problems that will arise after the war. He stated:

We must make the most careful plans, work out the most detailed methods and call in the help of scientists, economists and politicians, but all this will be of no avail unless there is in the peoples of all nations a determination to succeed. The spirit of cooperation and ruthless insistence that we should make the common good of humanity the overriding principle of all our policies is essential.

We are fighting for a moral, not merely a material issue. Although our plans must be scientifically prepared, there must be behind them the inspiration of our deepest religious convictions. . . .

If we were to drop back to the old competitive struggle between nations and between corporations in an attempt to win national monopolies for world resources, then no planning could succeed. Rival plans would be formulated and elaborated, and there would be greater and more destructive world rivalry between them. One thing is sure—that the United Nations must, at the end of the war, undertake the international regulation of the production and distribution of essential raw materials, both in the interest of immediate rehabilitation of the devastated countries as well as with a view to attaining that steadily rising standard of living throughout the world which is one of our objectives.

It is too early as yet to lay down finally the form that such a regulative system should take. This is one of the matters which requires exploration and which must be worked out by common agreement among the United Nations.

Captain Oliver Lyttleton, in his April 1942 broadcast, referred to post-war conditions in the following manner:

I believe there are three things which we all want and which we must see that we get. The first is to make this a truly cheerful coun-

try, a country in which we can laugh when we want and put out our tongues at the people we don't like, a spacious, active, enterprising, gay country. The second is to see that we are never again faced with the horror of mass unemployment. The third is to modernize the capital equipment—by which I mean the transport, the roads, ports, towns, houses and amenities of our country . . . Of one thing I am sure and that is that it is folly for your statesmen or ministers to guarantee you any new world. That is in your hands. If you fix your minds upon what you want in a free democracy, then you will attain most of the things for which you strive.

In the realm of the social services the Government will have to consider the problem of continuing the social benefits inaugurated during the war. Insurance plans and compensation payments and pensions cannot be discarded after the war ends but will need to be continued to alleviate post-war suffering and adjustment. Shelters will be discontinued as homes for thousands of civilians but their end will mean that extensive rebuilding must occur in towns and cities throughout the nation.

From this summarized discussion of a few of the many problems that today loom in Britain it should be apparent that pre-war Britain, in no way, can be compared with post-war Britain. So many changes have been made and so many variations in the original pattern of the country will be made before the war ends that, in retrospective, this conflict may receive its true valuation as an improving influence. Through it economic and social change has been hastened, and measures which previously, in peacetime, required years to consider, formulate and enact, have passed through Parliament without protest, irrespective of their drastic contents.

That the planning of post-war Britain will be a tremendous undertaking, one fraught with endless complications and international and domestic difficulties, is apparent to all citizens. Through consideration of the many interdependent elements of the chapters contained in this book, viewed in relation to the war effort and in relation to peacetime conditions, and many others which will appear before the war is won, a noble and sane program would be evolved for the conversion of the nation to a peacetime basis.

"'Tis nae sae bad as folk make out." This statement made by a British soldier on a distant front sums up the indomitable spirit of the British people. It is a spirit that has permeated the activities of all Britons, whether they have been in factories, offices, homes or on the land, that has surmounted all wartime restrictions and carried legislative measures forward to successful operation.

British citizens, in their many individual capacities, have followed the leadership of their Government in the choice of occupation, the conservation of food, gas, electricity and many other items, the curtailment of travel and entertainment, and the promotion of the savings campaign. They have witnessed the nationalization of the coal and transport industries, the establishment of the first national minimum wage in the history of British coal mining, the development of a countrywide agricultural policy aimed at expanding home-produced foodstuffs and at guaranteeing prices for farmers' products. But they have profited from the Government plan of insurance on family and property against many hazards, including enemy action. They have benefited from the national health and evacuation services, housing projects, public shelters and free milk. Part of their taxes will be returned after the war to serve as a nest-egg to tide over the crucial post-war years. And they are aware that competent officials are planning a better Britain for all citizens to enjoy when peace comes at last.

Three years of active combat against totalitarian nations has brought home to every Briton the restrictions and responsibilities of a total war economy, and have revealed the personal and financial sacrifices inherent in it. These restrictions, responsibilities and sacrifices have been gladly accepted by all loyal British subjects, irrespective of their education or income, in order that a better Britain and a better world may emerge for future generations to cherish and to enjoy forever.



## NOTES

### CHAPTER I

1. The Economist, Dec. 9, 1939, pp362-367 and The Round Table, December 1938, pp50-88 discusses the task of economic policy in war in order that all British productive capacity and accumulated real wealth could be mobilized, and points out that the type of mobilization adopted will depend upon the demand for war supplies of the nation and its productive capacity. The complications which follow such a decision are interrelated and they cannot be segregated into separate compartments for discussion or handling. In the process the conversion of Britain's potential economic strength into actual capacity was of prime importance.
2. Einzig, Paul, Economic Problems of the Next War, London, Macmillan and Co., 1939, pp146 contrasts planning for warfare in the World War with what it should be in a modern war, and indicates the advance plans which were made by Britain for economic mobilization for war.
3. Clarke, R. W. B., The Economic Effort of War, London, George Allen and Unwin, 1940, pp250, describes the measures and problems that follow in the wake of war, and the necessity for regimentation of activity.
4. Stafford, Jack, Planning for War, Economic Journal, March 1940, pp27-41, provides a discussion of the sacrifices demanded by a war effort.
5. Macmillan, Harold, Economic Aspects of Defense, London, Macmillan, 1939, pp67, brings the economics of a defense effort home to effort citizen and relates his activities to the total set-up.
6. Clarke, R. W. B., Organizing Industry for Defense, The Banker, August 1939, pp157-164.
7. The Economist, Feb. 10, 1940, pp239-240 and March 16, 1940 pp453-454, discuss the House of Commons debates on economic policy and coordination, criticism of the Government's economic plans, and a formulation of what the policy might well be at that period of the war.
8. Francis, E. V., Britain's Economic Strategy, London, Jonathan Cape, 1939, pp391, although written before the war, contains much material applicable to it, especially with relation to the effect of economic mobilization upon a nation's economy.
9. Finer, Herman, The British Cabinet, the House of Commons and the War, the Political Science Quarterly, Sept. 1941, pp321-360 supplies the chart.
10. Ministry of Economic Warfare, Order 1939, No. 1188.
11. For contrasts in activities of its departments as war has progressed, see The Economist, Oct. 14, 1939, pp41-42 and May 24, 1941, pp679-80. Einzig, Paul, Economic Warfare, London, Macmillan, 1940, pp151 is one of the

- most authoritative volumes on this subject and it provides both a theoretical and a practical approach to economic warfare.
12. Statement of Minister of Economic Warfare, House of Commons, Jan. 17, 1940, Parliamentary Debates, Vol. 356, Cols. 143-91.
  13. For discussion of the early aspects of the blockade see *The Economist*, July 13, 1940, pp37-40.
  14. Beveridge, William, *Blockade and the Civilian Population*, and Clarke, R. W. B., *Britain's Blockade*, in *Oxford Pamphlets on World Affairs*.
  15. Rationing of imports had been enforced during the World War but what was achieved in this connection at a final stage in that war could not be initiated in the opening months of this conflict without provoking serious reactions from importing countries and from exporters who wished to maintain their trade.
  16. In the last war essential materials, such as cotton and rubber, although placed on conditional contraband lists, were imported freely into adjacent neutral countries and passed into Germany by them until March 1915.
  17. Agreement was practically reached in the Declaration of London in 1909 which was signed by nearly all nations but was not legally binding since none ever ratified it. It divided goods into three classes: 1. unconditional contraband (goods used in the actual prosecution of the war, such as guns and munitions); 2. conditional contraband (imports which might be necessary for belligerent nations in certain cases, such as foodstuffs if rationing was introduced owing to food scarcity); 3. goods which were not useful for war purposes and were not contraband (toys, cosmetics).
  18. From the inception of war to March 1, 1940 the Committee considered the cases of 2,700 ships and many hundreds of thousands of items of cargo.
  19. *Economic Warfare, Second Year*, Ministry of Economic Warfare Press Conference, March 9, 1941.
  20. Discussion of the Ministry of Economic Warfare, House of Commons, April 2, 1942.
  21. Speech of Hugh Dalton, Minister of Economic Warfare, at National Defense Public Interest Committee Luncheon, London, Sept. 17, 1941.
  22. Pigou, A. C., *Political Economy of War*, London, Macmillan, 1940, pp168 is an excellent introduction to the understanding of the feverish activity occasioned by war, and the shadow cast by it over all of a nation's plans and programs. It also shows that, in time of peace, a nation cannot be forced upon a war footing if it is a democracy.

## CHAPTER II

1. 3 & 4 Geo. 6, Ch. 30.
2. *The Economist*, Feb. 17, 1940, pp282-283 contains a discussion of the apparent disadvantages of appointing controllers from the ranks of the industries they are appointed to control. Sir William Beveridge's book on the Ministry of Food in the World War is quoted to substantiate this view as follows: "Of experts, in the more ordinary sense of men accustomed to deal in the war of business with particular foods the Ministry had an abundance. . . . But the business experts were always supervised by laymen; the coordination of two or three different branches of work was done, not by an expert in anyone of them, but by someone equally ignorant of all."
3. *The Economist*, June 15, 1940, pp1033-1044: "Each British industry, faith-

ful to the prescription, has spent the past decade in delimiting its fief, in organizing its baronial courts, in securing and entrenching its holding and in administering the legal powers of self-government conferred on it by a tolerant State. . . . It is the order of ideas that led to the Imports Duties Act being drafted in such a way as to put a premium of self-seeking monopolies and a discount on the public interest; that turned 'high profits and low turnover' into the dominant slogan of British business; that raised the level of British costs to the highest in the world. It is a set of ideas that is admirable for obtaining secure, orderly development and remunerative profits for those already established in the industry—at the cost of an irreducible body of general unemployment. It is emphatically not a set of ideas that can be expected to yield the maximum of production, or to give the country wealth in peace and strength in war."

4. The Statist, Aug. 2, 1941, p 81, criticized this stand and stated that, if a Ministry of Production was not set up, the Prime Minister at least should overhaul existing machinery and eliminate inefficient men and methods.
5. Tenth Report of Select Committee on the National Expenditure, August 8, 1940.
6. The London Times, May 21, 1941, in discussing the new procedure, drew attention to the fact that production strategy demanded a maximum command of production and the incorporation in one program of the demands of the Supply Departments. The departments, under its suggested plan, would receive back their parts of the program and their claims on controlled materials, and would place their orders. Efficient regulation of production would be provided as well as complete employment of capacity.
7. Ministry of Supply Act 1939, 2 & 3 Geo. 6, Ch. 38.
8. The Financial News, Sept. 17, 1941, p1.
9. The Economist, Jan. 11, 1941, pp31-32.
10. The London Times, July 9, 1941.
11. For discussion of their activities see Stindl, J., Production Executive Regional Boards, Oxford Institute of Statistics Bulletin, Aug. 30, 1941, pp272-78. For revisions in original Boards see The Economist, July 4, 1942, p9.
12. See Select Committee on National Expenditure Report, May 28, 1940.
13. Report, Select Committee on National Expenditure, Aug. 6, 1941.
14. Report, Select Committee on National Expenditure, Nov. 11, 1941.
15. Report of Commissioner on Public Accounts for Nov. 11, 1941.
16. See The London Times, June 24, 1941 and The Daily Telegraph, July 11, 1941 for discussion of problems that arose in the production process.
17. Complaints of the set-up were incorporated in a memorandum handed to the Prime Minister by the Association of British Chambers of Commerce. They included: Lack of balance in organization, delay, overlapping, too large clerical staffs—all of which applied to London Departments.
18. The Economist, Sept. 27, 1941, pp375-7.
19. The Statist, July 12, 1941, pp25-6.
20. The Economist, Oct. 11, 1941, p442 and Dec. 6, 1941, pp680-1; The London Times, Feb. 9, 1942. It has been suggested by the first-named that a flat rate of say 80% should be established for the excess profits tax with the amounts retained by the Government to be blocked until after the war.
21. The Statist, Oct. 4, 1941, p238.
22. The London Times, Feb. 4, 1942.

23. *The Economist*, Nov. 1, 1941, p526-7.
24. *The London Times*, Nov. 26, 1941 drew attention to the debates in the House of Commons in which the need for a more unified direction of the production program had been stressed as well as the setting up of a department with a supervisory function which would receive and examine complaints of maladjustment now passed from one department to another without satisfaction being secured.

### CHAPTER III

1. For discussion of plan see: Parliamentary Debates, House of Commons, March 27, 1941, Vol. 370, Cols. 729-826, and House of Lords, Official Report, Vol. 119, No. 36, April 23, 1941, pp27-55.
2. Editorial and public comment was favorable to the plan. *The Economist* stated: "The new policy cannot have anything but unqualified if somewhat impatient welcome." *The Financial News* commented as follows: "The essential goal is maximum industrial efficiency now and the President of the Board of Trade deserves the fullest congratulation for furnishing the first bold and imaginative leadership in the sphere of industrial production control."
3. Concentration of Production, Cmd. 6258, Explanatory Memorandum Presented by the President of the Board of Trade to Parliament by Command of His Majesty, March 1941.
4. *The London Times*, March 20, 1941.
5. *The Economist*, April 5, 1941, pp436-7 suggested other methods including, in order of preference, the following: agency agreement; pooling; transfer of quotas; levy and compensation; merger. Under the first, firms remained in commercial operation although their physical production was concentrated, nucleus firms produced articles as agents for closed firms with the latter buying them at cost and selling them through their regular sales channels. Under the second, all firms in an industry joined together in a pool to operate nucleus plants. This method was of application to firms in which intangible assets were of great importance. Under the third, a certain quota was fixed for each firm to provide it with its pre-war proportion of the business permissible, nucleus firms purchased the quotas of firms that closed down and scope was provided for individual bargaining. Under the fourth, a selected number of nucleus firms assumed the entire trade and made a profit from it at their discretion. A predetermined levy was imposed on firms to secure funds for payment of a fixed compensation to companies remaining out of business. Under the last, permanent concentration of ownership and production was achieved, production being distributed among nucleus firms and closed companies disappearing from the industry. Of these methods the agency appeared the best from the community point of view with pooling accorded second place. Transferable quotas met certain disadvantages in operation as they tended to exclude trade and profits. The levy and compensation method was not desirable as the burden of the levy frequently fell upon the consumer. Merger was considered too drastic a method to apply for purposes of temporary concentration.
6. House of Commons, May 15, 1941, Vol. 371, Parliamentary Debates, Cols. 1253-54.



7. The Accountant, Sept. 6, 1941, pp134-35. The items which could properly be brought into account as irreducible expenses or cost and maintenance payments for closed firms included: rent, rates, fire insurance, caretaking, fire and watching staff, wear and tear of plant and machinery, but did not include interest on loans or loan capital or contributions under the War Damage Bill of 1941.
8. The Financial News, April 17, 1941, p1.
9. Worswick, G. D. N., Concentration in the Leicester Hosiery Industry, Oxford Institute of Statistics Bulletin, April 26, 1941, pp118-23, discusses at length methods followed by this industry and the difficulties that have arisen because of variation in type of product, size of firm, ownership and method of selling. A committee of small and medium sized manufacturers representing over 200 firms, operating in and near Leicester, met and discussed production. The period June to November 1940 was taken as a base and every firm was required to calculate the value of its product and of each of six classes of hosiery produced, how much of the production it considered excessive and manufacture was reduced accordingly. In general, the plan adopted was aimed at concentrating production and preserving the identity of each selling organization.
10. The London Times, July 16, 1941.
11. See The Statist, April 26, 1941, pp361-363 for details of specific schemes.
12. The Statist, July 26, 1941, p65.
13. The Economist, Nov. 22, 1941, pp615-16.
14. Worswick, G. D. N., in Oxford Institute of Statistics Bulletins, April 5, 1941 pp97-98 and May 17, 1941, pp135-40 estimates the number of workers released in various industries through concentration plans. His method, applied to the hosiery industry, correctly calculated the number released and it has been applied to other industries with success.
15. The London Times, April 28, 1941.
16. In a letter to The London Times, March 31, 1941, A. L. Bowley and A. M. deNeuman, of the Oxford Institute of Statistics, pointed out that concentration, in their opinion, should be directed toward the most efficient factories independently of their size, with concentration of factories rather than of firms secured. "From the fragmentary evidence available it cannot be concluded that efficiency increases with size; in many cases there is conclusive evidence to the contrary. In the period 1918-1935 no natural trend against the small firm is observable. The successive Censuses of Production reveal that the small enterprises preserved their place tenaciously in the national economy in spite of the quite obvious monopolistic tendencies observable in the last decade." This argument is discussed in The Statist, July 12, 1941, p30.
17. The Economist, March 8, 1941, pp297-299.
18. The Statist, August 9, 1941, p105.
19. The Economist, April 5, 1941, pp436-37: "The structure of British industry for decades to come will inevitably be affected by the ways in which concentration is now achieved, and it will be well worth while to take additional care over the methods of concentration now if by so doing dangers for the future can be avoided. Whatever means of attaining a proper balance between individual freedom and social order in the sphere of industry, the

problem is one of the most urgent that will face the country after the war."

20. Wensley, A. J. and Florence, P. S. Recent Industrial Concentration, Review of Economic Studies, June 1940, pp139-158 indicate that general concentration in England and Wales has been on the increase during the past century. This movement, it is believed, will be enhanced and hastened by concentration plans made during the present war.
21. See speech of Captain Oliver Lyttleton, President of the Board of Trade, before Sheffield Chamber of Commerce, April 9, 1941, reported in The London Times on April 10, 1941.
22. See The Economist, October 4, 1941, pp400-401, The Financial News, April 28, 1942, p2 and The Economist, August 29, 1942, pp260-61, present developments.

#### CHAPTER IV

1. See Annual Reports of the Trade Union Congress for 1938 and 1939 for reiteration of the Party stand against aggressor nations. The willing subordination of the Party to national interest caused no dissention within itself—a condition of great significance.
2. Geoffrey Shakespeare, Parliamentary Secretary to the Admiralty, speaking in the debate on shipping in the House of Commons, March 18, 1940, stressed the close collaboration between the Government and Labor. House of Commons Official Report, March 18, 1940, Col. 1715.
3. The Economist, Feb. 10, 1940, pp239-240.
4. The Economist, Sept. 6, 1941, p284 and Dec. 6, 1941, pp677-678.
5. Third Report of Select Committee on National Expenditure, Dec. 19, 1940, draws attention to enticement of labor, overtime, distribution and training, effect of overtime on costs, reduction of hours of work, use of spotter system for raids, improvement of lighting, dilution, increased use of cost systems, and method of preventing breaks in production.
6. For discussion of the training of war workers see The Economist, Feb. 24, 1940, pp321-33 and May 18, 1940, p893.
7. The Economist, May 25, 1940, pp2405.
8. Beginning on April 1941, under Government training schemes, men received 60s 6d per week, increasing to 75s 6d during the third and final months of training. Women started at 38s which rose to 47s at the end of their training.
9. The London Times, Feb. 11, 1941.
10. See The London Times, Jan. 4, 1941 and The Economist, Jan. 24, 1941, p100 for substantiation of this view.
11. Royal Economic Society Memorandum No. 89, Apr. 1942, p7.
12. Ministry of Labor Gazette, Dec. 1941 and Jan. 1942.
13. The Economist, Dec. 20, 1941, pp476-7 and July 25, 1942, p115.
14. Ministry of Labor Gazette, Nov. 1941.
15. Statement of H. M. Government on Price Stabilization and Industrial Policy, Cmd. 6294, July 1941. See The London Times, July 2, 1941 and The Economist, July 26, 1941, pp99-100 for discussion of this document. Also, The Economist, July 13, 1942 and The London Times, Aug. 4, 1942 for further discussion.

16. The Statist, July 13, 1940, p31.
17. Contrast The Economist at Feb. 3, 1940 pp192-3 and at November 16, 1940, p620 for the use of labor at these two dates.
18. The Statist, March 15, 1941, p220.
19. The Economist, June 8, 1940, p1004.
20. The Economist, May 10, 1941, p616.
21. For discussion of women and the war see the following: The Spectator, June 21, 1940, pp834-5; The London Times, Aug. 30, 1940; The Economist, Sept. 7, 1940, p370, May 10, 1941, p616, Nov. 8, 1941, p559.
22. See the following speeches of Ernest Bevin for exposition of his Party's war aims: The War and the Workers; British Labor Against Naziism; Labor's Achievement and the Goal. And for one of the best discussions of labor and the war see Price, John, Labour in the War, London, Penguin, 1940, pp176.

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2. From The Economist, Jan. 31, 1942, pp136-37.
3. Adapted from Memoranda of Royal Economic Society for the years 1940, 1941 and 1942.
4. Estimates for 1941-2 were contained in Financial Statement 1941-2, House of Commons, Parliamentary Debates, April 7, 1941, Vol. 370, No. 47, Cols. 1299-1337.
5. An Analysis of Sources of War Finance and An Estimate of the National Income and Expenditure in 1938 and 1940, Cmd. 7271, April 1941. For discussion of this document see Paish, F. W., The Budget and The White Paper, Royal Economic Society, Memorandum No. 86, May 1941, pp10-13, and Kaldor, Nicholas, The White Paper on National Income and Expenditure, The Economic Journal, June-September 1941, pp181-191.
6. For estimates for 1940-41 see Financial Statement (1941-2), Copy of Statement of Revenue and Expenditure as laid before the House by the Chancellor of the Exchequer when opening the Budget April 7, 1941.
7. Kovacs, L., An Installment Plan for Post-War Deliveries, The Economic Journal, Dec. 1941, pp492-98.
8. The former are sold by post office, trustee savings banks, and by all banks at 15s each. Interest is added to the value of each certificate at fixed intervals. Certificates are worth 17.6 after 5 years and 20.6 after 10 years, equal to interest of £3.3.5% p.a., not taxable. No person may hold more than 500 units. The latter are sold by post offices, banks, or stockbrokers. Each bond costs £5, maximum purchase £1,000. Interest of 3% per annum paid semi-annually on May and Nov. 1 is taxable. Deposits of 1s and over may be made in post office savings and trustee savings banks with interest at

- 2½ per annum for each £1 deposited. These deposits then, in turn, are loaned to the Government.
9. The Statist, July 12, 1941, p22, and The Financial News, Feb. 13, 1941, p1 and July 16, 1941 p1 discuss the interest rates in this war. John Maynard Keynes has contended that interest rates will become purely nominal and as no other avenues of investment are provided to citizens all funds can be canalized into Government issues.
  10. See The Economist, Nov. 30, 1940, pp672-3 for discussion of British resources in dollars and gold.
  11. See Federal Reserve Bulletin, Dec. 1939, p 1042 for division between central gold reserves, dollar balances, negotiable securities (marketable), and direct investments.
  12. The Financial News, July 23, 1941, and The London Times, August 6, 1941 contain a discussion of the details of the pledge. Also, Cmd. 6295, Agreement between Government of the United Kingdom and R.F.C., dated July 21, 1941, and Financial Powers (U.S. Securities) Act 1941 (4&5 Geo. 6, Ch.36).
  13. Discussions of this sale are contained in The London Times, July 11, 1941, The Financial News, Aug. 4, 1941, p2 and The Economist, July 25, 1942, p115.
  14. The Economist, June 14, 1940, pp1044-45.
  15. The Economist, April 6, 1940, pp608-9.
  16. The Statist, July 20, 1940, pp45-6 and The Banker, July 1940, pp22-27.
  17. The Economist, March 1, 1941, pp278-9 and April 12, 1941, pp491-2.
  18. The Economist, Feb. 1, 1941, pp138-9.
  19. The Economist, April 12, 1941, pp475-77.
  20. An Analysis of the Sources of War Finance and an Estimate of the National Income and Expenditure in 1938, 1940 and 1941, Cmd. 6347, April 1942. For Comment see The Statist, April 17, 1942, p289. The Economist, April 18, 1942, pp528-532. Schwartz, G. L., The Budget and the White Paper, Royal Economic Society Memorandum, May 1942, pp2-8, Kaldor, Nicholas, The 1941 White Paper on National Income and Expenditure, The Economic Journal, June-September 1942, pp206-222.

## CHAPTER VI

1. Wootton, Barbara, Who Shall Pay for the War, Political Quarterly, April-June 1940, pp143-154.
2. Parliamentary Debates, House of Commons, Vol. 363, Col. 653, July 23, 1940, estimated at £40,000,000 for the remainder of the fiscal year and £110,000,000 in a full year.
3. The London Times, April 8, 1941.
4. This represented a partial adoption of the Keynes plan described by John Maynard Keynes in his book, How to Pay for the War, N. Y., Harcourt, Brace, and Co., 1940, pp88, reprinted from his articles in The London Times for Nov. 14 and 15, 1939. The plan, in addition, included a family allowance of 5s per week per child, for the lowest income groups, to be paid from public funds, and the creation of minimum amounts of essential goods to be maintained at low fixed prices by Government subsidies. A capital levy, at the end of the war, under this plan, would be enforced to raise

- money to repay sums due on account of deferred earnings. In connection with the plan Keynes stated: "The combination of universal family allowances in cash, accumulation of working class wealth under working class control, a cheap ration of necessities and a capital levy after the war embodies an advance toward economic equality greater than any which we have made in recent times." The plan has had wide attention and was discussed in the following papers: *The London Times*, Feb. 27, 1940; *Daily Telegraph*, Feb. 23, 1940; *Manchester Guardian*, Feb. 22, 1940; *Financial News*, Oct. 19, 1940, p3; *The Banker*, Dec. 1939, pp149-50; *New Statesman*, and *Nation*, Sept. 28, 1940, pp298-9; *The Economist*, March 2, 1940, pp363-4; and *The Spectator*, March 1, 1940, pp273-4.
5. Up to January 31, 1942 tax reserve certificates yielded £100,000,000 and proved a popular way of paying taxes and a means of releasing considerable sums of money which, otherwise, would have been blocked in banks against payments in taxes.
  6. *The Economist*, Feb. 4, 1942, p177 suggested that a simple tax, of say, 2s in the pound on all incomes over £78 per year, could be exacted with 30s a week supplemented by family allowances. There would need to be supplementary taxes under this plan, such as direct taxes on higher incomes and special rates for dividends.
  7. *The Taxation of Weekly Wage Earners*, Cmd. 6348, White Paper to accompany the 1942-3 Budget, April 1942.
  8. *An Analysis of the Sources of War Finance and An Estimate of the National Income and Expenditure in 1938, 1940 and 1941*, Cmd. 6347, White Paper with 1942-3 Budget, April 1942.
  9. Hicks, J. T. and U. K., and Rostas, L., *The Tax on War Wealth*, Oxford, Clarendon Press, 1941, pp368, contains an excellent discussion of the tax of war profits, and the inherent difficulties found in this tax.
  10. See following articles for discussion of inequities of the excess profits tax: *The Economist*, Nov. 3, 1940, pp551-2; November 9, 1940, pp581-2; April 5, 1941, pp450-1; April 13, 1941, pp675-6, and *The Financial News*, Jan. 17, 1941, p2 and April 8, 1941, p2.
  11. *The Statist*, July 12, 1941, pp25-26.
  12. *The Economist*, Oct. 11, 1941, pp442.

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1. For description see *The Economist*, July 20, 1941, pp92-3.
2. Estimates are contained in *The London Times*, July 24, 1941 and were based on data compiled by the Oxford Institute of Statistics.
3. *The Statist*, Aug. 21, 1941, p105.
4. For treatment of this extension of rationing see Kalecki, M., *Inflation, Wages and Rationing*, *The Banker*, Oct. 1941. In addition to points mentioned he suggests supplementing the point rationing of clothes and shoes by the prohibition of the manufacture or import of goods over a certain price limit and the immediate introduction of a stringent combined point rationing of coal, gas and electricity. The Government could purchase the unused coupons of every description at values to which they relate, thus granting allowances to lower income groups and preventing sale of coupons on black markets.

5. Kalecki, M., General Rationing, Oxford Institute of Statistics Bulletin, June 1, 1941, pp1-6.
6. Polak, J. J., Rationing of Purchasing Power to Restrict Consumption, *Economica*, August 1941.
7. The Kalecki and Polak plans are discussed in the Memorandum of the Royal Economic Society, August 1941, p12.
8. The Accountant, July 27, 1940, pp67-69.
9. The Financial News, March 31, 1942, p3 and The Economist, July 18, 1942, p83.
10. The London Times, June 2, 1941.
11. The Economist, March 7, 1942, p338.
12. Tyeman, Donald, Limitations of Price Control, The Banker, August 1940, pp71-75 describes the Act and its weaknesses.
13. The London Times, June 12, 1941, and The New Statesman and Nation, July 14, 1941 show comparisons between the two Acts.
14. The Accountant, Aug. 23, 1941, p98.
15. Price Stabilization and Industrial Policy, Cmd. 6294, July 1941.
16. Paisch, F. W., The Control of Prices in Wartime, Memorandum of Royal Economic Society, Aug. 1941, pp10-12.
17. The Economist, Nov. 9, 1940, p574.
18. The Financial News, Jan. 17, 1942, p1.

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1. Hall, A. D., The New Call upon the Land, The Fortnightly, Aug. 1940, pp113-119.
2. The Economist, April 12, 1941, p482.
3. The Economist, Feb. 7, 1942, p181.
4. The London Times, Oct. 21, 1942.
5. See The Economist at the following dates for changes in rations: Dec. 28, 1940, p788; Feb. 22, 1941, p239 and Oct. 25, 1941, p501.
6. Jones, J. H., Some Aspects of Food Control, The Accountant, July 26, 1941, pp43-4.
7. The Economist, Jan. 18, 1941, p68.
8. The Statist, Aug. 30, 1941, p149.
9. Worswick, G. D. N., Rational Rationing in Wartime, Oxford Institute of Statistics Bulletin, Sept. 20, 1941, pp287-294.
10. The Statist, Nov. 8, 1941, pp329-330.
11. The Economist, Jan. 31, 1942, p139.
12. The Economist, Jan. 17, 1942, p64.

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1. The Financial News, Jan. 27, 1941, p2.
2. The London Times, Oct. 15, 1941 and The Economist, Nov. 8, 1941, pp553-4.
3. The Economist, Aug. 2, 1941, p149.
4. U.S. No. 2 (1941) Correspondence Respecting the Policy of His Majesty's Government in the United Kingdom in Connection with the Use of Materials Received under the Lease-Lend Act, London, Sept. 10, 1941, Cmd.

6311. For comment see *The London Times*, Sept. 11, 1941 and *The Banker*, Oct. 1941, pp36-43.
5. *The Economist*, May 4, 1940, pp816-7.
6. Ellis, A. W. T. and Halpern, D. B., *Wartime Reorganization of the Coal Industry*, *Oxford Institute of Statistics Bulletin*, June 29, 1941, pp189-193.
7. *The London Times*, July 7, 1941.
8. For discussion see Report of Select Committee, March 1941. Also Coal, Presented by Board of Trade to Parliament, June 3, 1942, Cmd. 6364, and *The Economist*, July 4, 1942, p24.
9. *The Accountant*, Feb. 17, 1940, pp166-168.
10. *The London Times*, Oct. 24, 1940.
11. *The Economist*, March 1, 1941, pp277-8.
12. *The London Times*, April 7, 1941.
13. *The Economist*, May 10, 1941, p619.
14. *The London Times*, Aug. 29, 1941, Sept. 1, 1941 and September 27, 1941, and Stewart, Margaret, *New Railway Agreement*, *Bulletin of Oxford Institute of Statistics*, Sept. 20, 1941, pp300-304 provide concrete information and discussion of the provisions of the new agreement.
15. *The London Times*, Jan. 9, 1942, p5.
16. *The Financial News*, Oct. 22, 1941, p2.
17. Report of Committee on National Expenditure, March 1941 on shipping in home and overseas ports, mercantile crews, ship repairs and delays due to customs formalities.
18. *The Financial News*, July 4, 1941, p1.

## CHAPTER X

1. The best discussion of the social changes during the early part of the war may be found in Brown, Ivor, *Social Changes in Wartime Britain*, Fortnightly, May 1940, pp522-529; and for later developments in Elton, G., *Reflections on a New Social Order*, Fortnightly, May 1941, pp435-63.
2. *The London Times*, Dec. 19, 1940.
3. By various Acts the Government has brought into effect plans for compulsory insurance, at low rates, against the result of war damage to all kinds of property, and it has made generous provisions for free compensation for losses of private persons up to a certain amount. The *Commodities Insurance Scheme*, introduced in 1939, made insurance compulsory for the stock in trade of all wholesalers and retailers, over certain minimum amounts, and spread the risk over the entire country. The *Business Scheme*, introduced two years later, made insurance compulsory for all goods held by a person for the purpose of his business, and was retroactive from the outbreak of the war. Compensation under the scheme was generally deferred until the entire of the war although payments up to £100 could be made immediately, or larger sums if the Board of Trade thought they were advisable. The *Private Chattels Scheme* provided for free insurance of furniture, clothing and other personal effects up to the following limits: a householder £200, plus £100 for his wife and £25 for each child under 16; a non-householder up to £50. Above these amounts insurance has been made compulsory at rates of 1% to 2% per annum. The scheme is retroactive to the beginning of the war and compensation is deferred until after

the war, except for sums up to £25. In cases of immediate distress Local Assistance Boards can make an advance of up to £50 for furniture, or £10 to £30 for clothing, according to the number of dependents.

4. Report of Medical Research Council for 1941.
5. This report may be obtained from Macmillan and Co., N. Y.

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1. The Economist, Oct. 26, 1940, pp513-4.
2. The London Times, Feb. 3, 1941.
3. The London Times, July 19, 1941. See also Ministry of Works and Buildings, Expert Committee on Cooperation and Betterment, Interim Report, Cmd. 6294, 1941.
4. See speech of the Prime Minister, House of Commons, Jan. 22, 1941 for appointment of Arthur Greenwood, and The Economist, March 21, 1942, pp384-5 for appointment of Sir William Jowitt.
5. The Economist, Aug. 23, 1941, pp221-222.
6. The New Statesman and Nation, Oct. 18, 1941, p344.
7. The Economist, Jan. 10, 1942, pp30-1.
8. The London Times, March 24, 1942.
9. Courtauld, Samuel, An Industrialist's Reflections on the Future Relations of Government and Industry, The Economic Journal, April 1942, pp1-17.
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